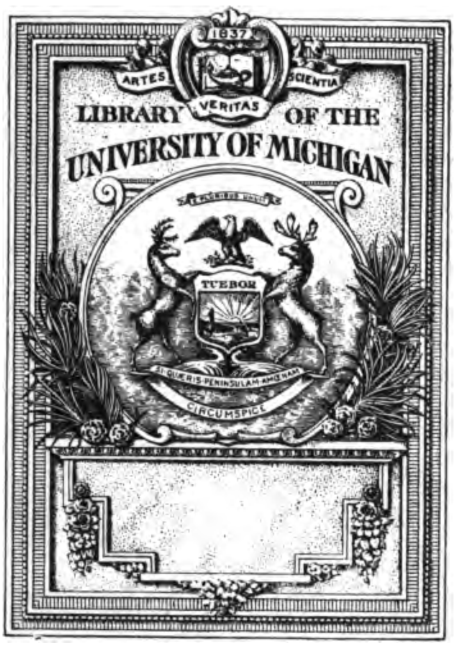
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MONEY

AND ITS

VICISSITUDES IN VALUE.

WORKS BY THE SAME AUTHOR.

Essays on the Formation and Publication of Opinions, &c., 3rd edition.

Questions for Discussion in Literary Societies.

A Critical Dissertation on the Nature, Measures, and Causes of Value, chiefly in reference to the Writings of Mr. Ricardo and his Followers.

A Letter to a Political Economist, occasioned by an Article in the Westminster Review on the Subject of Value.

Essays on the Pursuit of Truth, the Progress of Knowledge, &c.

A Discussion of Parliamentary Reform, by a Yorkshire Freeholder.

The Rationale of Political Representation.

The Right of Primogeniture Examined, in a Letter to a Friend, by a Younger Brother.

MONEY

AND ITS

VICISSITUDES IN VALUE;

AS THEY AFFECT

NATIONAL INDUSTRY AND PECUNIARY CONTRACTS:

WITH A

POSTSCRIPT

ON JOINT-STOCK BANKS.

BY THE AUTHOR OF

THE RATIONALE OF POLITICAL REPRESENTATION, A CRITICAL DISSERTATION ON VALUE, &c.

(Samuel Bailey)

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PREFACE.

THE following Essay was the result of an attempt on the part of the Author, some years ago, to settle his views on the various questions of which it treats, with only a secondary reference to publication. Having, in a partial degree at least, satisfied his own mind by the effort, he has ordered a few copies of the treatise to be printed, in the hope that it may assist others engaged in the pursuit of the same object.

In discussing so difficult and complicated a part of political science, it is more than probable that, with all his care and anxiety for truth, he has fallen into grave errors. These he shall be most happy to see corrected by the enlightened criticism of such inquirers as have reached more accurate and comprehensive views than he himself has succeeded in attaining. He has only to add that the present treatise is the one adverted to a few years ago in the Preface of "The Rationale of Political Representation," with such alterations and additions as a deliberate and careful revisal has enabled him to introduce. The Postscript on Joint-Stock Banks is, as a cursory inspection of it will suffice to show, of much more recent origin.

May 9, 1837.

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ON MONEY,

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CHAPTER I.

ON THE NATURE AND FUNCTIONS OF MONEY.

THE nature and functions of money have been so frequently explained that it is needless to treat them here at any length. The present Chapter will, therefore, confine itself in a great measure to the exposition of some distinctions not always sufficiently observed.

There are three characters in which money may be considered, and which it is of importance to discriminate.

1. Money is in the first place the universally marketable commodity, or that in which every one deals for the purpose of procuring other commodities. If a man possesses money, he can always obtain such other articles as are exposed to sale, but when he possesses those other articles he cannot always obtain money. Hence any one who has a quantity of some

commodity to dispose of in exchange for other commodities usually begins the process necessary for procuring what he desires, by exchanging his own commodity for money, and then exchanges the money for the articles which he wants. This is one of the characteristic circumstances on which it is desirable at the outset to fix the attention of the reader for the purposes of the following treatise. Money then is the medium of interchanging commodities, or, if a new term may be hazarded, it is the great *medial* commodity. It has been very appropriately designated as the instrument of exchange, than which we cannot in general, perhaps, employ a better appellation, and accordingly that term will be used occasionally in the following pages; but the name which is now proposed more forcibly recalls to the mind the particular light in which it will be more frequently the object of the present treatise to have it regarded. The term instrument of exchange puts out of sight, or at least omits to bring into view, the circumstance that money is a commodity like those articles which it serves to pass from the hands of one person to those of another, while the phrase *medial commodity*, although meaning in effect the same thing, fixes the attention on the precise circumstance which the other neglects.

2. From the circumstance of money being the general medial commodity, or that which is employed to procure other commodities in the market, it naturally becomes the general *commodity of contract*, or that in which the majority of bargains about property, to be completed at a future time, are made. Thus a manufacturer of cloth sells a quantity of his woollen goods to a draper on condition of receiving a certain quantity of money at the end of six months, or a labouring man undertakes a piece of work on condition of receiving a stipulated number of shillings at the end of a week. But, although contracts in general are made in the medial commodity, they are not necessarily or invariably made in it. An agreement for the rent of a farm, for instance, sometimes stipulates that the tenant shall pay to the landlord a certain quantity of corn instead of money.

3. From the circumstance of money being the general medial commodity, it not only becomes the general commodity of contract, but also the measure of value. To be the measure of value is in fact a necessary incident to a generally employed medial commodity—a position

not requiring many words to explain it. The term *measure* signifies a medium for the comparison of quantities, and the phrase *measure of value* means something which enables us to compare the value of two articles, A and B, which perhaps have never been directly exchanged for each other in the market. Now, as all articles are exchanged for money, the mutual values of A and B are necessarily shown by their values in money or their prices. If A happens to be worth two pounds sterling and B only one pound, then one A is worth two B. Thus the value of all commodities in relation to each other, or their respective stations in the scale of value, are at once seen by their prices; as the comparative weights of substances are seen by their weights in relation to water, or their specific gravities.

The term measure of value has been used with great laxity, but if any one who reflects on the subject will take the trouble of trying to conceive any other process couched under the phrase than the one here described, or attach any other meaning to the term than that which is here given, it is no great presumption to say that he will be ultimately sent back to this simple idea.

Such are the functions which money performs and the purposes which it serves, whatever may be the material of which it is constituted. In rude nations various commodities have been used in this capacity, but in civilized countries the precious metals have superseded every other. Durable, portable, easily divisible into definite quantities, and high in value compared with the generality of commodities, they unite, in greater perfection than any other substance, the qualities which it is desirable that a medial commodity should possess.

Without enlarging on all the properties which have brought them into such general use in this capacity, it will be sufficient for the purpose of the present treatise to mention that they combine two requisites which may be considered as essential, and which it is here necessary to explain. 1. The first essential requisite is that money should be uniform in its physical qualities, so that equal quantities of it should be so far identical as to present no ground for preferring one to the other. This is obviously necessary in order to constitute a good medial commodity, and more especially a good commodity of contract. For that readiness of interchange and bargaining which is the peculiar advantage derived from such a commodity, every portion of it should obviously and indisputably possess the same properties. Hence, grain or cattle of any kind, if no other objection attached to them, would be inconvenient medial commodities, because equal quantities of grain and equal numbers of cattle are not always alike in the qualities for which they are preferred. On the contrary, pounds and ounces of pure gold are always exactly alike in their properties; they are virtually identical. A pound of pure gold in the possession of any one in the present day, and in this country, is the same as any other pound of pure gold which has existed in former ages, or exists in any other country. A person, therefore, who deals in this commodity feels assured that the pound of pure gold which he bargains to receive in a year, or in twenty years, will be the same for all practical purposes, as that which he parts with to-day. When portions of the metal for the sake of convenience are transmuted, as usually happens, into coin, the case is not altered. It then becomes requisite that coins of the same denomination should uniformly possess the same fineness and weight. Money, as generally employed, consists of portions of the precious metals, containing a small proportion of alloy, with a certificate stamped upon them, that they are of a certain weight and fineness, thus saving an immense expenditure of time and trouble in assaying and weighing the pieces of metal in circulation. If pieces passing under the same denomination differed in respect of fineness and weight, it would be a practical absurdity; the object of thus stamping them would be defeated, and that virtual identity of portions of the medial commodity, so essential to its character, would be destroyed. A person in that case, who gave a pound sterling for a commodity, and sold it again for a pound sterling, would not be sure that the pound he received was the ame article as the pound he gave. Whether then the medial commodity appears in the form of pounds and ounces, or of certain denominations of coin, the virtual identity of equal quantities or of portions passing under the same name is alike requisite.

This identity is secured, in the first place, by the uniform qualities of the metal; and, secondly, by the uniform weight of the portions into which it is divided.

As the uniformity here described is essential to money in its capacity of the medial commodity and the commodity of contract, so it is required to render money a good measure of value. If a coin sometimes contained a quarter of an ounce of gold, and sometimes a third of an ounce; or if the metal varied in the qualities for which it was esteemed, there would be an end to all ready comparison of the value of commodities. Under these circumstances, if we were told that a yard of woollen cloth was worth £1 sterling, and a piece of linen £2, we should not be able, without further information, to infer that a piece of linen was worth two yards of cloth, because £1 in the first case might mean one thing, and in the second a very different thing. We should not know the relations of the cloth and the linen to the same intermediate commodity; and therefore we could not, from such data, discover their relations to each other. There could be no scale of value.

2. The second requisite in money, is comparative steadiness of value, which is in a high degree an attribute of the precious metals. In its capacity of a medial commodity, the desirableness of this steadiness of value in money will be obvious; inasmuch as money is that commodity which a person keeps by him

to be able to command other commodities when he wants them; but if a definite portion of it continually and extensively fluctuated in its power of commanding other commodities, he would be in perpetual uncertainty, and subject to frequent disappointment. In its capacity of the commodity of contract, the desirableness of this steadiness in money is still more conspicuous. Bargains for the receipt and payment of money at future periods, would be little better than desperate speculations, if the commodity in which they were made underwent incessant and extensive variations in its relations of value to other articles.

This steadiness of value, so desirable in money as a medial commodity and a commodity of contract, is quite unessential to it in its capacity of the measure of value. It has indeed been usually taught, from Adam Smith down to the present time, that money, to be a good measure of value, should be invariable in its own value; in the same manner as a foot, to be a good measure of length, should be invariable in its own length. But this doctrine arises from confounding different ideas.—Money may continually vary in value, and yet be as good a measure of value as if it remained perfectly stationary. Suppose, for example, it is reduced in value, and, as a reduction in value implies a reduction of value in relation to some one or more commodities, suppose it is reduced in value in relation to corn and labour. Before the reduction, a guinea would purchase three bushels of wheat or six days labour; subsequently, it would purchase only two bushels of wheat or four days labour. In both these cases, the relations of wheat and labour to money being given, their mutual relations can be inferred; in other words, we can ascertain that a bushel of wheat is worth two days' labour. This, which is all that measuring value implies, is as readily done after the reduction as before. The excellence of any thing as a measure of value is altogether independent of its own variableness in value.*

It is probable that this doctrine, of the necessity of invariableness of value to make money a perfect measure of value, has partly

* The reader may see this subject treated at greater length in two works, one entitled "A Critical Dissertation on the Nature, Measures, and Causes of Value," and the other, "A Letter to a Political Economist," by the author of the present treatise.

arisen from confounding invariableness of value with invariableness in fineness and weight. If we take invariableness in this sense, the analogy between a measure of value and a measure of length will hold. We may then say, that as a measure of length, such as the natural foot, which is continually varying in its own length, can never be an accurate measure of the length of other things—so coins, which continually vary in weight and fineness while they retain the same denomination, can never measure the value of other commodities. The command of *quantity* being that which constitutes value, a definite *quantity* of some uniform commodity must be used as a unit to measure value; and it is this definite quantity of a substance of uniform quality which must be invariable. We measure space by an application of the same length as a foot or a yard: we measure value by a reference to the same thing, as an ounce of gold or a pound of silver.

It is true, that those political economists who have contended, that invariableness of value is requisite to constitute a good measure of value, have not distinctly meant by the term measure a medium for the comparison of quantities; but they have unconsciously used that phrase in several senses. In the doctrine now under examination, they appear to have confounded the idea of a measure of value with that of a medial commodity, or commodity of contract. What they have really meant, may be gathered from such positions as the following—"that money is a bad measure of value, because, if a man lends the sum of £100 to-day, there is no security that when it is returned, a dozen years hence, it will be of the same value; whereas, if money were a good or invariable measure, the sum would be of equal value at both periods." This is obviously using the word measure in the sense of medial commodity, or rather, commodity of contract, and amounts to the assertion, that money, owing to its variableness of value—or, in other words, to its sometimes commanding a smaller and sometimes a larger quantity of other commodities—is not itself a good commodity of contract for long periods. The same sum, or the same weight of metal, will not always enable its possessor to obtain the same things, and it is therefore an uncertain article in which to make a bargain. It is, nevertheless. an accurate measure of value in every possible fluctuation, so long as coins, which pass under the same denomination, remain uniform in weight and fineness; for we may always find the comparative values of different commodities, by ascertaining their prices. It is purely on account of its being the general medial commodity, and, as a consequence of this, the general commodity of contract, that changes in the value of money are of importance, and not on account of its being the measure of value. Indeed, this latter term might be wholly discarded, as all denoted by it is the simple circumstance, that the prices of articles show their values in relation to each other; and the disuse of it would free us from all those erroneous associations which will perpetually intrude themselves, so long as we retain the phraseology to which they are attached.

It is the causes and effects of changes in the value of money, as the commodity of interchange and the commodity of contract, that will form the subject of examination in the following chapters.

CHAPTER II.

ON THE CAUSES OF VARIATIONS IN THE VALUE OF MONEY

THE value of money, as we have seen, means the relation which it bears in the market to other commodities. The prices of these commodities express the quantities of money for which definite portions of them sell, and the value of the money given is in its turn denoted by the definite portions of the commodities. Thus, when it is stated that a quarter of wheat sells for fifty shillings, the value of the wheat is expressed by the number of shillings, and the value of the shillings by the quantity of wheat.

It follows, that a change in value is an alteration, from any cause, in the quantities in which commodities are exchanged for one another; and a change in the value of the medial commodity, or money, is an alteration in the quantity of it given for something else.

Changes in the value of money—or, what is the same thing, in prices—may obviously arise from two sets of circumstances:—viz., from circumstances operating directly on money, and from circumstances operating directly on other commodities. A quarter of wheat, for instance, which now sells for fifty shillings, may rise to sixty shillings, from an additional influx of money, occasioned by the augmented fertility of the mines, or from a partial disuse of the precious metals, while the supply of wheat and the demand for it remain the same. And, on the other hand, while the quantity and uses of money remain unaltered, a quarter of wheat may rise to sixty shillings, from a failure of crops or an increase of consumers. In both these cases, the value of money in relation to wheat is equally altered; but in other respects they are widely different. In the first case, the relations of money to all other things are altered, as well as to wheat; in the second, it is the relation of money to wheat alone that is necessarily affected, while the mass of commodities retain their former prices. Variations in the value of money, of the first kind, may, for the sake of convenience, be termed changes of value originating on the side of the money: variations of the second kind may be termed changes of value originating on the side of other commodities. It has been usual to style the former changes in the value of money, and the latter changes in the value of other commodities; and to consider, that in the one case the value of such commodities, and in the other the value of money, remains unaltered; but with manifest incorrectness. When employed in close reasoning, such phraseology (accurate enough for common purposes) almost inevitably vitiates our deductions.

There are now only two kinds of money in general use amongst civilized nations:—viz., metallic money, and its substitute and representative, paper-money. We shall proceed to examine, in succession, the causes which operate to produce variations in the value of each of these important instruments of commerce.

SECTION I.

On the Causes of Variations in the Value of the Precious Metals, and thence of Metallic Money.

IN examining these causes, it may be useful to begin with that class which it is not so immediately the object of the present essay to trace with minuteness: the causes, namely, of *such variations in the value of money as originate on the side of other commodities.*

Supposing money to be unaffected by any variations originating on its own side, the prices of other commodities must necessarily fall as the facility of supplying such commodities increases. The discovery of shorter and more economical processes in the arts, the invention of machinery, the abolition of monopolies and taxes, are examples of circumstances operating to reduce prices, or in other words to raise the value of money. If such improvements in production extended to all commodities, the purchasing power of money might be enhanced as effectually as by a scarcity of the precious metals. This source of variation in the value of money is continually active in all civilized countries. During short periods it may seem to have little effect; but if we contrast remote epochs, we shall be sensible of the magnitude of the changes flowing from it. It is sufficient for our present purpose to have pointed out its continual operation and importance. Contrary circumstances imposing difficulties in the way of production would, of course, have contrary effects, and lessen the purchasing power of money.

The causes of *those vicissitudes in the value of money which originate on its own side*, will require a more elaborate examination. They may be ranged under the heads of variations in the demand for the precious metals, and variations in the existing quantity of the precious metals. It is obvious that, while the facility of producing other commodities undergoes no change, and while the quantity of gold and silver in use remains the same, the value of the precious metals will rise if the uses to which they are put be multiplied or extended, and, *vice versa;* and, on the other hand, that while the demand is unvaried, their value will fall if the quantity be augmented.

Let us consider, in the first place, *variations in the Demand*, while the quantity remains unaltered.

An increase in the demand for the precious metals may arise in two ways: a greater quantity of them may be required for purposes of ornament and luxury; and a greater quantity may be required for the office of money.

The first source of new demand needs no comment or illustration. Should it grow extensive, it would have a proportionate effect in reducing the prices of commodities generally, operating exactly in the same way as a falling-off in the supply from the mines.

The second mode in which a new demand for the precious metals may spring up may not appear so plain. It will probably be asked, how can a larger supply of money be required while other commodities undergo no change in the cost of production, and the actual quantity of the precious metals is undisturbed?

Such a demand may be occasioned by several circumstances of no uncommon occurrence. A growing addiction to hoarding money produced by despotism, or commercial instability, or the insecurity of political institutions, is one of these circumstances; the breaking out of a war, requiring well-furnished military chests, is another. A still more common and extensive one is the substitution, in any country, of specie for paper-money. All these events, whenever they happen, create a new demand, and raise the value of the precious metals as effectually as a defection in the supply from the mines: nor is it to be doubted that each of them has, at one period or other, had considerable influence. Under the condition supposed by our argument, that no fresh supply of the precious metals were admitted, but that the same quantity had to serve both the new and the old purposes, the effect in raising the value of money might be intense. In actual affairs, the enhancement of value never reaches, in any country, a very remarkable height, because it is counteracted by a supply drawn from other countries, through a process which will be hereafter explained.

Another source of augmented demand for the precious metals, as money, is an increase of population, or, in other words, an increase in the number of those who make use of money. This circumstance must as inevitably increase the demand for the medial commodity as it would increase the demand for corn. It is not necessary to contend that the additional demand for money would be exactly proportionate to the additional population, yet it would probably be nearly so, on the supposition we have assumed, that the facilities for producing commodities continued the same, and the population remained in the same economical condition. That a very large additional demand for money would be the inevitable consequence of increased numbers, must be apparent to every one, from one simple consideration, without adverting to any other. All the money in the country must be held conjointly by the dealers in it and the users of it. Almost every individual is the holder of some pieces of money for his immediate necessities. Amongst the poor the amount held individually is small, and perhaps it is held only at intervals by many of them ; but amongst the middle and higher classes it is frequently large, and the aggregate of the coin thus held by rich and poor must be very considerable. This fund in hand for immediate purposes will probably, *cæteris paribus*, be nearly proportioned to the population: a population of 20 millions will probably require double the quantity of coin for their current wants which is required by a population of ten millions, and at all events, if they do not require double, they will want a greatly augmented quantity. Now, supposing the quantity of money to remain fixed, and that the additional demand cannot be met by an additional supply from abroad, the consequence will be a great rise in the value of the precious metals in relation to other commodities, or, what is the same thing, a fall in prices, just as there would have been had population remained stationary, and the supply of the precious metals been diminished.

This is a very important cause of variation in the value of the precious metals, especially at a time when mankind appear to be increasing their numbers in almost every civilized country, and in some countries at a rapid rate. When we take into account the progress of population in Great Britain and Ireland, in all our colonies, in the United States of America, in France, and Continental Europe generally, it is impossible not to conclude that the demand from this source has tended most powerfully to enhance the value of gold and silver. The effect has doubtless been beneficially counteracted by the employment of paper-money, by improved systems of banking, and those other expedients of interchange which are discovered and adopted in the progress of civilization. Notwithstanding all these countervailing circumstances, however, it can scarcely be questioned that the increase of population has been one great cause of that fall of prices which has been taking place, with some occasional checks, for the last twenty years.

It is scarcely necessary to go through an explanation of those circumstances operating to diminish demand, which are the mere contraries of those which increase it. A diminution of the population of a country, for example, has so exactly the opposite effects in this matter to those produced by an augmentation, that to trace both in detail would be superfluous. Besides these contrary circumstances, the great causes operating to diminish the demand, for the precious metals, are, the employment of paper-money and the system of banking. Of the importance of the former cause, we should perhaps best attain an adequate idea, by attempting to conceive what would be our commercial condition if all payments in the present day, and in every country, had to be made in metallic money, without the intervention of any paper representative.

In such a state of things, the operations of commerce would be impeded, and the value of money enhanced all through the world, in a degree difficult to calculate.

The system of banking diminishes the demand for the precious metals, simply by making a smaller quantity of money do the work of a larger quantity. Without banks, the merchant and the manufacturer, the gentleman and the tradesman, the landlord and the tenant, would all have to keep in reserve a much larger amount of money for current and prospective purposes, than they now have any need to do: an immense mass of property would be thus at all times lying without employment, to meet the emergencies when it might be wanted. The trade of the banker renders this unnecessary. Through his instrumentality, these sums are distributed to active employments, and eventually a much smaller quantity of money than formerly suffices to perform the same functions, to transact the same amount of business, by being passed more rapidly from one person to another.

The second class of causes affecting the value of the precious metals, are those circumstances which *augment or diminish the existing quantity*.

At any given period—at the present moment, for example—there is a certain quantity existing in the world; there is also a certain waste from loss and abrasion continually arising; and there is also, on the other hand, a fresh supply constantly furnished by the mines. If the annual supply fall short of the annual waste, the existing quantity will necessarily be diminished, and the value of the metals rise: if the annual supply exceed the waste, the value will fall: the condition of course being understood, that the demand remains stationary.

In the history of the world, many important vicissitudes have happened in the supply of gold and silver. Of these, the greatest beyond question was occasioned by the discovery of America; an event which led to the progressive reduction of the value of the precious metals in every country of the old world, through a long series of years, notwithstanding the counteractive circumstances of increasing population and more fruitful industry.

A remarkable vicissitude in the contrary direction was caused in 1810 by the breaking out of the insurrections in the Spanish American colonies, and the consequent interruption in the working of the mines. The falling-off in the supply was so great, that Mr. Jacob computes the stock of coined money in Europe to have been less in 1829 than it had been in 1809, by £66,611,440.*

Excepting these variations in the produce of the mines, and the waste from loss and abrasion, the respective quantities of the precious metals existing in the different countries of the world, can undergo no alteration but from the action of these countries on each other. If England at any time acquires a larger stock of gold and silver than she before possessed, she must draw it from some other country; and if she at any time parts with a portion of her usual quantity, some other country must acquire it.

To inquire, then, into the causes of fluctuations in the quantity of the precious metals in any country, is, in the main, to investigate the modes in which different countries act on each other's stock of those metals. It will be sufficient, for our present purpose, to trace the most important of them. We have already adverted to the effect of an increase of population in occasioning an additional demand for money, and shown, that if the demand

* An Historical Inquiry into the Production and Consumption of the Precious Metals, by Wm. Jacob, Esq., vol. ii. p. 322.

could not be met by a corresponding supply, the value of money would increase, and prices fall.

But, to a certain extent, a supply would be obtained. (The demand arising in one country, and enhancing the value of the precious metals there, would draw away part of their stock from other countries.) Suppose the former country to be England, and that, while she was doubling her population, all other countries remained stationary in regard to the number of their inhabitants: instead of prices falling very extensively in England, in consequence of the new demand for money produced by this increase of population, they would fall only in a moderate degree; for commodities, as they became cheaper, would be exported from England to other countries, in exchange for the precious metals: the abstraction of a quantity of gold and silver from these countries, and the importation of additional commodities into them, would lower prices there, while the effect on England would be the reverse. The result of this action and re-action on each other, when the disturbance of their currencies had subsided, would be an augmented value of the precious metals both in England and other countries, in nearly the same proportion—or, in other words, a fall in prices; the issue of the operation being ultimately the same as if, while the population of England continued stationary, she had had a part of her stock of the precious metals thrown into the sea, and had been under the necessity of supplying the deficiency from other countries.

Another instance of this action of one country on other countries is seen, when, in any nation, the paper-money which formed its currency is displaced by specie; or, on the other hand, when a metallic currency is superseded by paper. As one of these cases will suffice for illustration, we will take the first, especially as it has actually occurred within a few years in our own country. The abolition of small notes under £5 by the British government necessarily caused an importation of gold from other countries, and of course an exportation of commodities to pay for the gold. The tendency of these simultaneous operations was, to lower prices in other countries. Nor could the result be different here, although the exportation of the commodities might in some degree counteract it. The withdrawal of the notes would, in the first place, check the interchange of commodities by credit, and thus inevitably lower prices : in the next place, the quantity of gold procured to supply the place of the paper would not be equal, in aggregate amount, to the paper so displaced; unless, indeed, from a simultaneous increase in the supply of gold from the mines, the quantity absorbed by England should happen to be compensated: and, thirdly, as no simultaneous increase in the supply could ensue, except by the merest chance, the value of gold in England would partake of the general rise produced by her own financial arrangements throughout the world. The combination of these causes could not fail to have important, although not easily appreciable, effects—effects which the authors of the measure obviously did not foresee.

The changes which take place in the productive power of a country are another and equally remarkable source of the influence exerted by her on the currency of another. We have already seen that the share which she possesses of the precious metals existing in the world depends on her population, as one cause. It also depends on her productive power: and as a change in the population of a country occasions a variation in her stock of gold and silver, so a change in her productive power equally occasions a variation, although accompanied by different circumstances. In both cases she produces a considerable effect on other countries.

In order to elucidate the operation of a change in her productive power, it will be requisite to inquire how a country, not possessing mines of her own, originally obtains her share of the precious metals.

If we were to suppose that only two countries existed in the world, one possessing mines, and the other not, we should perhaps render the subject less complex. Let these countries be Mexico and England. In the first instance, probably, the bargain by which the latter procured a supply of the precious metals from the former would be determined by causes not accurately assignable—caprice, or fancy, or peculiar necessity, on one side or the other; in the same way as bartering with savage nations is influenced by such circumstances at present: and the value of gold or silver in England might at the outset bear no proportion to what had been given for it. When once, however, the silver (to confine ourselves to a single metal) had come into general use as money, any additional importation would depend on one simple principle. There could then be no further quantity brought into the country, unless the Mexican owner of the silver were willing to give a greater quantity of the metal in exchange for some commodity produced in England, than the commodity cost (in silver) to produce it. If the article, for instance, cost 20*s.* the Mexican must give that sum and a further sum to cover the usual rate of profit, or no exchange could take place. If England produced no such commodity as the Mexican was willing to buy at a price to cover the cost, she could not augment her stock of silver.

When things were brought to this state, two events might happen, either of which would cause an exchange: Mexico, on the one hand, might obtain a more abundant supply of silver by the discovery of more fertile mines, or by a more skilful application of her labour in the working of the old ones: England, on the other hand, might increase in population or be subject to other causes augmenting the demand for silver: or she might effect such improvements in her productive industry, might so augment the efficiency of her capital, as to be enabled to bring some commodity to market at a lower rate. In the first event, the Mexican, having more silver at command, might be induced to give the Englishman the price for his commodity without which the latter could not afford to sell it; and, in the second event, the cheapness of the commodity, from an augmented use of silver, or from a saving in the labour of production, would lead to the same result. In either event, England would acquire an addition to her stock of silver.

We have supposed, for the sake of tracing effects more clearly, that England and Mexico were the only countries in the world engaged commercial interchange. Let us now bring a third country into the circle of intercourse—France, for example; and we shall find the result modified. The quantity of silver in England will no longer depend merely on the fertility of the mines on the one hand, and her own population and industry on the other, but also on the quantity which France can absorb, and this will be governed by the same causes which operate on England. In this position of affairs, it is evident that there will not only be a process of interchange going on between Mexico and England, and Mexico and France, but that the two European countries will act on each other.

The supply of silver which England will obtain will be smaller than she would have obtained if France had been out of the question. How much each will obtain will depend, in the main, on the relative state of the productive powers of the two countries, in conjunction with the numerical population. Supposing the population in one to be the same as in the other, then the share of each country will mainly depend on their relative productive powers. If France has fewer commodities to export than England, and those at higher prices, she will have a smaller supply of silver, for not only will she have fewer articles to exchange with Mexico, but even if she obtain from that country an additional quantity of silver, it will probably be re-exported to England to purchase the cheap commodities of the latter. Here we see the principal cause why the precious metals are scarce in some countries while they are abundant in others. The countries in which they abound, must produce a much greater quantity of exportable commodities than the country in which they are scarce. The latter can have but few commodities to exchange with her neighbours, although she may want many of theirs: but as she can export little, she can import little. She has little to give in exchange either for the precious metals or for other commodities. If she imported many commodities, she must part with some of her gold and silver, when the value of the remainder would rise and prices fall. A country of the former class, on the contrary, has a great number of commodities to export, perhaps an increasing number, and if by means of continual improvements she go on adding to her exportable commodities, she will go on adding to her stock of the precious metals, and their value will fall.

To resume our hypothetical case, let us suppose France and England to be the countries just now described. While they continue in the respective conditions here represented, the superabundance of the precious metals in one can never overflow into the other, for England will not give her gold and silver for nothing, and France has nothing to give for them. But if France take a start in improvement, if her power of production be augmented while England remains stationary, she will both obtain a larger share of the supply from Mexico, and draw away a portion of the stock of precious metals existing in England.

Thus we see that an improvement in the productive powers of a country, by attracting a larger portion of the precious metals, enhances their value in other countries, just as an increase of her population. It is worth while, however, to notice an important distinction between the effects produced by an increase of population and those produced by an improvement in productive power.

If the enlargement of the share which England possesses of the precious metals is owing to an increase of her population, the prices of her commodities will fall in the proportion in which the prices of other countries will be lowered, the effect resembling that produced by a falling-off in the supply from the mines. If, on the other hand, the enlargement of her share is owing to an increased efficiency in her productive powers, the result will be different. In this case, the fall of prices in other countries will be the same in extent as if the abstraction of part of their stock of money had proceeded from an increase of her population, the effect of an abstraction of any given sum being the same whether originating in one external cause or another. In England two opposite operations would take place: first, the prices of those commodities in the production of which the supposed improvements had occurred would be lowered; secondly, the influx of the precious metals resulting from the exportation of such commodities would raise not only their prices but the prices of all other articles. This latter effect, however, would be much less in intensity than the other: that is to say, the commodities concerned in the improvement would not be raised by the influx of money to anything near their former prices; they would be enhanced by it only *pari passu* with commodities in general.

Thus, the quantity of the precious metals in a country may vary:—1st. From the varying produce of the mines: 2ndly. From the mutual action between her and other countries, occasioned by alterations in population, by the adoption or disuse of paper money, by changes in productive power, and by any other circumstances affecting her exports and imports.

Section II.

On the Causes of Variations in the Value of Paper Money.

When paper-money strictly represents metallic money, and is always exchangeable for it at the will of the holder, in some fixed and recognized place, the vicissitudes in value of the former must correspond with those of the latter, and the causes of variation in the one will be causes of variation in the other. An excess of paper-money might doubtless be issued under these circumstances, but this would depress the value of both paper and coin, and lead to its own correction. There is no room for any peculiar causes to act upon the value of paper-money, until it has lost the property of being convertible into gold and silver, and being procurable for gold and silver at some specified place; or, at all events, until it is likely, in the apprehension of the public, to lose it.

We must look, then, for these peculiar causes in cases where the metallic and the paper-money are no longer convertible into each other at the appointed place.

Cases in which paper-money may rise to a higher value than the coin which it represents are conceivable, but they are so rare in practice that they need not detain us. Should a particular kind of paper-money be wanted for payments which can be made in no other way, or in no other way so economical and convenient, a premium beyond the real amount in coin might be given for it.

The commonest cases are those in which, in consequence of the suspension of convertibility by an appointed agency, the paper money sinks in value below the metallic.

It is not necessary, however, that when the two kinds of money become incapable of being converted into each other at some fixed station, they should also become different in value. If, on the introduction of such an arrangement, no greater amount of paper-money were issued than had been current while it remained convertible into specie, and no extraordinary demand for the precious metals should arise, the metallic money and the paper money, although no longer convertible into each other by law, might still maintain their former relation in the market, and would be exchangeable for each other in point of fact. This happened both in the United States and in our own country, at the commencement of the system of inconvertibility. In this state of affairs, if, without any unusual demand for money or for the precious metals, the whole quantity of paper money should be augmented, the same effect would take place at the outset as would ensue in a country using a purely metallic currency, from an increase in the quantity of the precious metals. Prices would rise, and as the price of bullion would rise as well as of other commodities, there would be a difference between the value of a given weight of gold coined and the same weight in bullion, which would soon be corrected by the retrograde process of transforming the manufactured article into the raw material. If the issue of paper-money still increased, gold would wholly disappear, and a permanent enhancement of prices ensue.

The increase in the quantity of paper-money in this case would lead to the same consequences as a similar increase of metallic money if no currency but specie existed; and a series of vacillations in the quantity kept afloat in the community would cause corresponding fluctuations in prices.

Besides the cause of variation to be found in the varying quantity of the paper in circulation, another important circumstance and one peculiar to representative money frequently produces changes of value to a large extent. When it is the quantity alone which operates on the value of the paper, there must be a confidence throughout the community that the paper will be ultimately convertible into specie, or that at all events it will continue for an indefinite period to be received freely at its then actual worth. Should, however, any distrust arise, another element of depreciation in value creeps in, to which no bounds can be assigned, and which, in some notorious instances, has reduced immense sums of paper-money to a bundle of worthless rags.

Whatever may be the quantity in circulation, a conviction that the parties who have issued the paper, whether governments or individuals, will not or cannot refund the amount, according to the stipulation on the face of the notes, is fatal to its value.

The distrust needs not, however, be of this fundamental character, to produce considerable depreciation. A suspicion that a paper currency, the convertibility of which is perfect, will hereafter become inconvertible, is enough to cause not only a run for specie upon the bank which issues it, but even a small depreciation of value with those persons who are not placed in a situation to present for immediate payment the notes which they hold. But when there is an inconvertible paper money, a thousand causes, operating on the public expectation, may produce fluctuations in its value. Although a conviction may prevail that the paper will be ultimately redeemed, yet the time and circumstances of the redemption may be the subject of varying speculations, all affecting the worth of the currency. Even a strong apprehension, created by some public occurrence, that the value of the paper will fall still lower than it has hitherto done, is sufficient to bring about the event which it dreads.

The history of the world, since the introduction of paper-money, furnishes numerous proofs, that while the quantity of an inconvertible paper currency remains fixed, the value may be subject to immense vicissitudes from the varying impressions produced on the public mind, as to the probability of the redemption of the paper, the proximity of the time when it will be paid off, and the likelihood of new issues. An instructive work, which I just happen to have taken up while revising the present treatise for the press, furnishes a series of instances ready to my hand.

"The paper money," says the writer,

"issued by Congress during the war of the American independence, experienced no sensible depreciation before the year 1776, and so long as the amount did not exceed nine millions of dollars. A paper currency, equal in value to that sum in gold or silver, could therefore be sustained so long as confidence was preserved. The issues were gradually increased during the ensuing years, and in April, 1778, amounted to thirty millions. A depreciation was the natural consequence; but had the value of the paper depended solely on its amount, the whole quantity in circulation would have still been equal in value to nine millions, and the depreciation should not have been more than $3\frac{1}{3}$ to 1; instead of which, it was then at the rate of six dollars in paper for one silver dollar, and the whole amount of the paper in circulation was worth only five millions in silver. It is obvious that the difference was due to lessened confidence. The capture of Burgoyne's army was followed by the alliance with France, and her becoming a party to the war against England. The result of the war was no longer considered as doubtful, and sanguine expectations were formed of its speedy termination. The paper accordingly rose in value; and in June, 1778, although the issues had been increased to more than forty-five millions, the depreciation was at the rate of only four to one. From the end of April of that year, to the month of February, 1779, although the issues had been increased from thirty-five to one hundred and fifteen millions, the average value in silver of the whole amount of paper in circulation exceeded ten millions, and it was at one time nearly thirteen millions, or considerably more than that which could be sustained at the outset of the hostilities. But when it was discovered that the war would be of longer continuance, confidence in the redemption of a paper money, daily increasing in amount, was again suddenly lessened. The depreciation increased from the rate of 6 to that of 30 to 1 in nine months. The average value in silver of the whole amount of paper in circulation, from April to September, 1779, was about six millions, and it sunk below five during the end of the year. The total amount of the paper was at that time two hundred millions; and although no further issues took place, and a portion was absorbed by the loan offices and by taxes, the depreciation still increased, and was, at the end of the year 1780, at the rate of 80 dollars in paper for one in silver. The value in silver of the paper currency was then less than two millions and a half of dollars; and when Congress, in March following, acknowledged the depreciation, and offered to exchange the old for new paper at the rate of 40 for 1, the old sunk in one day to nothing, and the new shared the same fate."*

The case of an excess of paper money, even when freely convertible into specie, has already been adverted to. After the experience we have had in this country, no doubt can be entertained that such an excess may exist for some time unredressed; and although the check of convertibility must ultimately prevail, very considerable effects on prices may be produced in the interval. It is of great importance, therefore, that a paper currency should not only be subject to repression from without, but be placed under such a system of management as will prevent any excess in quantity from being issued.

* Considerations on the Currency and Banking System of the United States, by Albert Gallatin. Philadelphia. 1831. pp. 25 and 26.

CHAPTER III.

ON THE EFFECTS OF VARIATIONS IN THE VALUE OF MONEY.

After having investigated the *causes* of variations in the value of money, we shall be prepared to take a view of the *effects* of such variations. When it is considered what important functions money performs—that it is the medium by which every one obtains the articles he desires—that it is a commodity held by every one in larger or smaller quantities—and, above all, that it is the commodity of contract, or that in which almost all bargains are made—it will be felt that the inquiry is one of peculiar interest.

Almost all the effects of variations in the value of money will come under review, if we examine them under two heads: namely, effects of such variations on the industry of a country, and effects on pecuniary contracts.

The former cannot indeed be treated of, without taking into consideration the latter, through which it is manifest they are partly produced; but it will be found requisite to devote a separate examination to the subject of money bargains, in order to determine the principles on which, amidst every variation, they ought to be governed.

Part I.

On the Effects of Variations in the Value of Money on the Industry *of a Country.*

In this part of our inquiry, we shall consider, in the first place, the case of metallic money, and in the second place the case of paper money. Variations in both these kinds of money have essentially the same effects, but they so far differ as to require a separate examination.

Sect. I.—*On the Effects of Variations in the Value of* Metallic *Money on the Industry of a Country.*

It is a current opinion amongst those persons who have paid any attention to the subject, that a general rise in prices, or, what is the same thing, a fall in the value of money, owing to its greater relative abundance, always tends to encourage or stimulate the industry of a country; while a general fall of prices, from the opposite cause, does the reverse. This doctrine, as is well known, was taught by Hume in his celebrated Essay on Money; and his statement of it is so explicit, that we cannot do better than quote it at the outset of our inquiry.

"It is certain," says he, "that since the discovery of the mines in America, industry has increased in all the nations of Europe, except in the possessors of those mines; and this may be justly ascribed, amongst other reasons, to the increase of gold and silver. Accordingly we find, that, in every kingdom into which money begins to flow in greater abundance than formerly, every thing takes a new face: labour and industry gain life; the merchant becomes more enterprising; the manufacturer more diligent and skilful; and even the farmer follows his plough with greater alacrity and attention. This is not easily to be accounted for, if we consider only the influence which a greater abundance of coin has in the kingdom itself, by heightening the price of commodities, and obliging every one to pay a greater number of these little yellow or white pieces for every thing he purchases. And as to foreign trade, it appears that great plenty of money is rather disadvantageous, by raising the price of every kind of labour.

"To account, then, for this phenomenon, we must consider, that though the high price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase; but some time is required before the money circulates through the whole state, and makes its effect be felt on all ranks of people. At first, no alteration is perceived; by degrees the price rises, first of one commodity, then of another; till the whole at last reaches a just proportion with the new quantity of specie which is in the kingdom. In my opinion, it is only in this interval or intermediate situation, between the acquisition of money and rise of prices, that the increased quantity of gold and silver is favourable to industry. When any quantity of money is imported into a nation, it is not at first dispersed into many hands; but is confined to the coffers of a few persons, who immediately seek to employ it to advantage.

Here are a set of manufacturers or merchants, we shall suppose, who have received returns of gold and silver for goods which they sent to Cadiz; they are thereby enabled to employ more workmen than formerly, who never dream of demanding higher wages, but are glad of employment from such good paymasters. If workmen become scarce, the manufacturer gives higher wages, but at first requires an increase of labour; and this is willingly submitted to by the artisan, who can now eat and drink better, to compensate his additional toil and fatigue. He carries his money to market, where he finds every thing at the same price as formerly, but returns with greater quantity, and of better kinds, for the use of his family. The farmer and gardener, finding that all their commodities are taken off, apply themselves with alacrity to the raising more; and at the same time can afford to take better and more clothes from their tradesmen, whose price is the same as formerly, and their industry only whetted by so much new gain. It is easy to trace the money in its progress through the whole commonwealth, where we shall find that it must at first quicken the diligence of every individual, before it increase the price of labour.

"From the whole of this reasoning we may conclude, that it is of no manner of consequence with regard to the domestic happiness of a state, whether money be in a greater or less quantity. The good policy of the magistrate consists only in keeping it, if possible, still increasing; because, by that means, he keeps alive a spirit of industry in the nation, and increases the stock of labour, in which consists all real power and riches. A nation whose money decreases, is actually at that time weaker and more miserable than another nation which possesses no more money, but is on the increasing hand. This will be easily accounted for, if we consider that the alterations in the quantity of money, either on one side or the other, are not immediately attended with proportionable alterations in the price of commodities. There is always an interval, before matters be adjusted to their new situation; and this interval is as pernicious to industry, when gold and silver are diminishing, as it is advantageous when these metals are increasing. The workman has not the same employment from the manufacturer and merchant, though he pays the same price for everything in the market. The farmer cannot dispose of his corn and cattle, though he must pay the same rent to his landlord. The poverty, and beggary, and sloth, which must ensue, are easily foreseen."*

In order to enter fully into the merits of this question, it is necessary to reflect on the peculiar nature of the benefits derived by society from a circulating medium or instrument of exchange, like money. We shall soon perceive, that the principal advantage it confers is, enabling the possessors of any commodities to exchange them promptly for other articles whenever they wish to do so. To facilitate exchanges is the grand office of money; to bring into ready and immediate communication the persons who have commodities or services to sell, with the persons who wish to buy them.

What is the consequence of the traffic of a country being conducted by barter? Obviously, a very imperfect and inadequate interchange of commodities, and, by consequence, a very limited production. Beyond a certain extent—the extent of a man's personal wants—the only object which he has in production is exchange. He would have no

* Hume's Essays.—Essay on Money.

motive to continue labouring in the fabrication of any commodity after he had provided a sufficient quantity for his own use, unless he had the prospect of exchanging the surplus for a commodity which he wanted. Take away the anticipation of being able to barter his article for some other, and you paralyse his exertions. The easier it is to exchange commodities for others, the stronger is the motive to produce them. To interpose obstacles in the way of such exchange, is to check the movements of industry in an equal degree: to increase the facilities of exchange, is to accelerate production in a similar ratio.

On the introduction, then, of a medial commodity into a country which had previously carried on its commerce by barter, there can be no question that industry would be stimulated, or, in other words, additional inducements would be presented to engage in the work of production. Even if the medial commodity were an inconvenient one—such as is said to have been in use among rude nations, some of whom have employed cattle, others tobacco, and others shells, for this purpose—it would have something of this effect: and every improvement the country made in the character of the medial commodity employed, whether by changing its form or its substance, would be attended by a proportional encouragement of industry, inasmuch as it would facilitate the immediate object of almost all industry —the interchange of commodities. In fact, to facilitate in this way the interchange of commodities, has the same effect as to open new markets: it is bringing sellers and buyers together who could not previously find each other out, and removes as real an impediment to commerce as that which is constituted by mutual ignorance on the part of two nations of each other's existence.

The first introduction of the precious metals into any country as its medium of exchange must be followed by this advantage in a marked degree, possessing, as they do, properties so admirably adapted to the purpose: but even after they have become the common money of a country, the quantity may possibly be so small as not to discharge the function of an instrument of interchange with much efficiency. It would be venturing unnecessarily far, to say that the facility of traffic is universally in proportion to the abundance of money, for after a certain quantity has been reached, no addition to it would have any tendency to render exchanges more easy; but there is a point in the scale of abundance, every step of approach to which is attended with such an advantage, although it may be difficult to determine that point with precision.

While the currency is scanty and inadequate to the full and perfect discharge of its office, the industry of the country languishes. Much capital and productive skill may exist in an inert state: for it is to be observed that the number of labourers and the quantity of capital are not, as they have been too often conceived, certain definite powers which must inevitably produce a determinate result in any country where they exist. A greater or smaller number of producers are always in a state of inactivity, and even amongst such as are regularly at work, there is, according to circumstances, a great variation in the intensity of their exertions. We may, in reference to this dormant power, adopt the beautiful expression of the poet when he speaks of "the might that slumbers in a peasant's arm;" a might in this case ready to be put forth the instant it may be required. In the same way, there is always a greater or smaller quantity of capital lying inert, a quantity of food, tools, and raw materials not actually in request, which may at any time be called into activity, when any demand arises for their employment. Hence, so far from the amount of commodities which the existing producers and the existing capital bring to market, being fixed and determined, it is subject to a wide range of variation.

If this is a correct representation, as will scarcely be denied, it is not essential to an increase of production that new capital or new labourers should arise. Whatever alters the relation between the demand and supply of commodities, whatever affords an inducement to exertion or a discouragement to it, whatever presents or removes obstacles to the application of capital and labour, must affect production, although the number of labourers and the quantity of capital remain the same. A cause of this kind is an additional influx of the precious metals into a country hitherto scantily supplied. In such a country some commodities (or, what amounts to the same thing, power to produce them,) may be at one place in superabundance, other commodities at another place in like superabundance, and the holders of each wishing to exchange their articles for those held by the other, but kept in a state of non-intercourse for want of a common medium of interchange, and in a state of inaction because they have no motive for further production. In these circumstances, should the currency expand, and become more adequate to its purpose, greater facility is given to traffic, and consequently greater activity to productive power. No available materials or skill lie so long dormant or inert. There is a more rapid and complete use of property, as well as what is implied by that, a more complete employment of labour.

In illustration of the truth that it is not the absolute amount of available capital in a country on which alone depends the quantity of labour put in motion there, two cases may be supposed. In the first, a country has a certain amount of capital to be employed in productive labour; a certain quantity, namely, of food, tools and raw materials, but from the imperfection of its instrument of exchange, (setting aside other causes) this capital is slowly distributed to those parts where it is wanted: it is circulated with difficulty, exists for long intervals in inert masses, and in the result, does not furnish sufficient employment to the population. In the second case, the same amount of capital exists but by means of a ready instrument of exchange it is rapidly dispersed amongst the parties who can advantageously use it, and production is stimulated and augmented by the facility with which products are disposed of.

An actual example of the effects occasioned by a deficiency of the medial commodity may be seen in the following extract from a work already quoted:—"We may aver," says the writer, "from our knowledge, that the western counties of Pennsylvania had not, during more than twenty years after their first settlement, the specie necessary for their own internal trade and usual transactions. The want of communication, and the great bulk of their usual products, reduced their exports to a most inconsiderable amount. The two indispensable articles of iron and salt, and a few others almost equally necessary, consumed all their resources. The principle, almost universally true, that each country will be naturally supplied by the precious metals, according to its wants, did not apply to their situation. Household manufactures supplied the inhabitants with their ordinary clothing, and the internal trade and exchanges were almost exclusively carried on by barter. This effectually checked any advance even in the most necessary manufactures. Every species of business required the utmost caution, as any failure in the performance of engagements in the way of barter, became, under the general law of the land, an obligation to pay money, and might involve the party in complete ruin. Under those circumstances, even a paper currency, kept within proper bounds, might have proved useful."*

Political Economists are too apt, as we have already remarked, to consider a certain quantity of capital and a certain number of labourers as productive instruments of uniform power, or operating with a certain uniform intensity. Nothing, however, we venture to repeat, is more fallacious than any view of this kind. The producer who employs a definite capital may have his products a long or a short time on hand, and while he is waiting for an opportunity of exchanging them, his power of production is stopped or retarded, so that in any given period, as a year for example, he may produce only half of what he could do if there

* Gallatin on the Currency and Banking System of the United States, page 68.

happend to be a prompt demand. The remark of course applies equally to the labourer who is his instrument. If what is produced could instantly find a market, every one must see that production would be more rapid and labour far more efficient than they are. The adjustment of the various occupations of men in society to each other, so that what one man produces shall exactly supply the wants of some other men, who shall in turn produce the articles he himself wishes for or, at all events, articles which can be exchanged for what he wished for and all this without needless pause or loss of time, must, at the best, be imperfectly effected, But there may be a wide distance between the degrees in which it is effected, ample room in that space for great variations in the depression or encouragement of industry, and every step of approach to a perfect adjustment must stimulate production. Such a step mankind are enabled to take by every expedient which facilitates traffic and thus virtually opens a new demand. The more unimpeded and easy the interchange of commodities becomes, the shorter will be those unproductive intervals in which men, eager for work, seem separated by an impassable barrier from the capital which may be said to be as eager to set their labour in motion; but which, although it is close at hand, the imperfect arrangements or unavoidable casualties of society, doom to remain in barren inertness.

From the considerations now adduced, we are justified in concluding that in any country, with a scanty and inadequate currency, industry would be stimulated by an influx of the precious metals, until the deficiency had been supplied. In the case of such a country it will be universally granted that Hume's doctrine is correct.

But the most interesting and important question remains,—namely, whether in countries already supplied with a currency equal to all the purposes of commerce, an influx of the precious metals would have a similar favourable effect on production. It may be conceded that where the circulating medium is insufficient to effect the needful exchanges, an increase of money will incite industry by promoting traffic; but in what way can such an increase produce the same result in a country already sufficiently permeated by the precious metals? The ensuing section will endeavour to answer this important inquiry.

SECTION 2.

The Subject of last Section continued.

IF we reflect on the matter proposed for consideration at the conclusion of the last Section, we shall soon perceive that an influx of the precious metals, or, in other words, the importation of an additional quantity, may, under certain conditions (if it does not universally), imply a new demand for the productions of the country into which the importation takes place. It is then an instance of the opening of a new market, or of the springing-up of fresh custom.

In every case of the opening of a new market, a quantity of commodities can be disposed of which were lying on hand, or which the idle labour and unemployed capital of the country are fitted to produce. The capitalist sets to work a greater number of hands, and disseminates his locked-up stores; the workmen obtain a larger aggregate amount of wages, with which they go into the market for the commodities which they consume; and the producers of such commodities feel in their turn the benefit of the new demand.

We presume that few will question that such an impulse may be given to the industry of a country by the opening of new markets, that capital and labour, before inert, may be called into activity, and the permanent wealth of the country increased. There can be no difficulty, therefore, in seeing how the influx of gold and silver, under certain conditions, should produce the effects ascribed to it. The importation of an additional quantity may occasion an additional demand for commodities in exchange for it. The quantity of commodities ultimately sent out of the country in return for the precious metals, would not otherwise have been produced; capital and labour would to that extent have been lying idle. There is a new demand, which causes the producer to increase his efforts to bring forth an extraordinary quantity of commodities to exchange for the gold or silver. When the exchange has been effected, and the movement has subsided, there may possibly be no more commodities, and no more employment, in the country, than before; although this is scarcely probable, as even a transient increase of demand encourages exertions which last beyond the original motive, augments capital, and leads to habits of industry and improved methods of working, which add permanently to national wealth.

So far, nevertheless, the encouragement to industry—the stimulus to production, would be the same as would arise from the importation of any other commodity, in addition to the usual importations, in exchange for indigenous products: with this distinction, that precious metals would be absorbed into the circulation, occasioning a rise in prices, while the other commodity would increase the direct enjoyments of the people, or add to their capital.

It may be urged, perhaps, against this representation, "that it assumes, without any proof, that the commodities exported to pay for the gold and silver are produced in consequence of the increased demand, and would not have been otherwise brought into existence; that they are, in fact, a new creation: whereas the commodities may be already in existence, a sort of dead stock; and, consequently, the transaction may be simply an exchange of the commodities for money, without any additional industry being set in motion to prepare them. And even if we suppose the commodities to be prepared purposely, it does not follow that they are an addition which would not otherwise have been produced, and that the capital and labour employed upon them would have been inert. The demand created by the new supply of gold and silver, may merely effect a diversion of capital and labour from the objects to which they were before applied."

To take this latter objection first. If the employment of capital and labour were on the full stretch and admitted of no increase, then a new demand from abroad could be answered only by a diversion of the efforts of the producers. These persons are, by the hypothesis, doing all they can, and if they are summoned to any other task, they can only perform it by forsaking that in which they are already engaged. Such a state of things may be pronounced impossible: at all events, it can so seldom happen, as to justify us in assuming that a new demand will occasion an increase of production to a greater or smaller extent. Whether the whole of the commodities required by this additional demand will form a new creation over and above what would have otherwise been brought into existence, must depend on the peculiar circumstances of the country, in respect to the employment of its labour and capital. It may be laid down as a general principle, that a new demand will be met by fresh exertions; by the active employment of capital and labour before dormant, and not by the diversion of productive power from other objects. In reply to the other objection, that the exportation of the goods may not occasion any labour to be set in motion, inasmuch as they may be already in existence, we will allow that such a negative result is not an absolute impossibility, although it approaches to it. If the goods have not been purposely prepared to pay for the gold and silver, yet nevertheless, being by the supposition dead stock, the exportation of them sets at liberty capital before tied up in an unproductive state, and almost inevitably leads to the production of an equal amount of new commodities.

We have therefore before us two cases, in which an influx of the precious metals stimulates industry: viz. 1. when the currency of the country into which the influx comes, is scanty and inadequate; 2. when the influx creates a new external demand for products, to pay for the additional quantity of the metals. But instances of an influx (it will perhaps be said) may occur without either of these conditions; the country may be already well supplied with the precious metals, and the additional quantity may flow in to pay for products antecedently exported, in which case no new demand for the foreign market can arise. Without stopping to inquire whether there is really any difference in effect between an importation of the precious metals *before*, and an importation *after*, equivalent commodities have been exported in exchange for them, let us get quit of the question of foreign demand altogether, by supposing the additional quantity of the metals to be a gift or treasure-trove, and we shall then arrive at the simple effects of an increase divested of accessory circumstances. On this supposition, it will be found that there would be the same encouragement of production, as if commodities to an equal amount had to be exported, the sole difference between the two cases being, that in the former the commodities would be enjoyed by those who received the gift instead of the foreign consumer. For the sake of illustration, suppose a capitalist to receive from abroad a gift in specie of a million of pounds sterling, which could not be re-exported, and let us endeavour to trace the consequent effects on the industry of a country. No one can deny that some very considerable effects of one kind or other would be occasioned. The capitalist would undoubtedly purchase a great many articles which, but for this influx of riches, he would not have consumed, and hire the services of a great many people whose assistance he would otherwise have dispensed with. Commodities would be produced, and acts done in a thousand ways, in consequence of so large an accession of fortune. That it would necessarily alter the demand for various kinds of goods, and affect the direction of industry, seems, indeed, self-evident, for it would be absurd to suppose that, with this accession of purchasing power thrown into the hands of one individual, the demand and supply of commodities would continue the same in all respects as they were when this power was not in existence. There must, at all events, be a change in the direction of men's efforts.

It being established, then, that there must be an alteration in the demand—that is to say, that some articles would be wanted in larger quantities,—the production of those articles would be encouraged; motives would be presented to both capitalists and labourers to produce more, and more would accordingly be produced. If the fortunate individual of our hypothesis disbursed his new treasure freely, additional quantities of a great number of articles would be immediately required, and a visible animation would pervade the industrious classes engaged in preparing them. Capital lying inert and labour slumbering in the arm of the workman would be roused into activity. If the whole money (to take a strong case) were expended in cloth, can there be a doubt that a vast quantity of industry would be called into operation in the cloth trade beyond what would otherwise have been exerted?

Those who would deny that such an increase of money would stimulate production, must then maintain that this demand would be counterbalanced by a falling-off in some other direction. But of this there is no proof. Every individual in the community would have at the outset the same means as before, and would make the same demand in the market. He would, no doubt, ultimately find a rise of prices; and if he were merely a consumer, and not a producer, he might sustain a disadvantage. But although the additional quantity of money would be in the end disseminated through the country, and prices would be generally enhanced, yet this could not be done without that excitement to industry already described, resulting in an augmented quantity of commodities; which augmented quantity, requiring an increase of currency, would operate, as far as it went, to check the rise in prices. If indeed, while the money was going through the process of dissemination, production were at a stand, or not susceptible of enlargement, the result would be simply a rise of prices, and the capitalist with his million of specie would abstract from all other holders of money or their creditors a portion of their property. On this supposition, if he spent the whole million in the purchase of commodities, the rise in prices would lessen the power of the actual holders of money proportionably, and the commodities over which they lost the command would in effect be transferred to him. It is, then, in overlooking the circumstance that production is susceptible of being largely expanded when new inducements to exertion are presented to the classes engaged in it, that lies the fallacy of those who maintain an increase of money to be powerless in stimulating industry. It is also generally overlooked, that when capital and labour before inert are called into activity, the same effect is in some degree occasioned as we have ascribed to an increase of population: a part of the money is absorbed into the circulation without any effect on prices, or in other words the augmentation of the quantity of money is met by an increase in the demand for it, or, what is the same thing, in the number and extent of the uses for which it is wanted. Sales and purchases are multiplied and require a greater amount of currency to effect them.

The considerations already adduced are amply sufficient to meet the arguments of those (ably as they have been urged) who maintain the negative side of the question, that an influx of money does not tend to promote the production of other commodities; that, inasmuch as these commodities are the sole agents of production, such an influx of money cannot give that encouragement which is ascribed to it. This argument would (it appears to us) prove too much. It would prove that production could never be enlarged, for it requires as an indispensable condition to such an enlargement, that food, raw materials, and tools should be previously augmented; which is in fact maintaining that no increase of production can take place without a previous increase, or, in other words, that an increase is impossible.

Nothing is plainer, nevertheless, than the fact that countries do advance in wealth and productive power; and this progress must have a beginning and a cause.

The cause may be different in different cases, but in general it will be found at the bottom to be some new inducement to exertion; the prospect of acquiring something which has excited desire, and to attain which extraordinary efforts are readily made. Thus, the savage will undergo the fatigues of the chase (at a time when he would otherwise be indolently stretched in his hut,) for the sake of obtaining a gun, a roll of tobacco, or a quantity of rum, in exchange for the skins of the animals he kills. Here is a new demand inciting to exertions which but for such a demand would never have been made, because there would have been no motive to make them; a new creation of wealth not arising from a previous increase of capital setting labour in motion, but solely from the exhibition of an object of desire to the mind of the labourer. Such is the simple cause of the progress of national riches. What was it that gradually transformed the idle train of the feudal baron into agriculturists or mechanics, but the desire to possess comforts, conveniences, and luxuries before unknown, but which, when exhibited to their senses, roused their exertions and stimulated them to the creation of equivalent commodities?

To prove, then, that any circumstance may increase production, it is not necessary to show that it increases the agents of production, meaning by this term the elements of capital: it is only necessary to show, as we have endeavoured to do with regard to an influx of the precious metals, that the circumstance in question presents a motive to exertion which would otherwise not have existed. Any new commodity may have this effect; any novel object of desire, any prospect of gain or gratification, may present this motive. There can be no question that the new commodities brought from the East and West Indies have excited thousands of human beings to industry, which would otherwise have slept, and to ingenious contrivances to facilitate labour which without such a stimulus would never have been invented. Some have been directly roused to exertion by the desire of possessing the articles themselves, while others have been stimulated by the prospect of the profit to be obtained by ministering to the gratification of tastes in which they did not participate.

Again, it is said, that when purchasers go to market with an augmented quantity of money, if they do not raise the prices of the commodities which they find there, they give no additional encouragement to production: nor can they give such additional encouragement if they *do* raise prices, for if prices are proportionably enhanced, the purchasers have no greater power of demand than before.

In answer to this argument, it may be denied as a general principle, that a purchaser cannot give additional encouragement to production, unless his demand raise prices. It does not follow that an increased demand should enhance the value of any article, since a larger quantity of it may be brought to market at the same, and often a ta smaller proportional cost. Besides the circumstance that the preparation of a larger quantity admits of a more effective division of labour and the employment of superior machinery, there is in this matter that sort of latitude which we have before explained, arising from a quantity of labour and capital lying unemployed, and ready to furnish additional commodities at the same rate. From these causes it happens that a considerable increase of demand often takes place without raising prices. But the influx of money, of which we are now treating, implies an ultimate rise of prices, and the objection is that, prices being raised, the purchasers have no greater power of demand than before. Although this should be granted to be the final result, it by no means proves, as we have shown, that there may be no encouragement to industry in the process. Water will, in the end, find its level, but in doing so, it frequently occasions important effects. The rise of prices here spoken of pre-supposes a number of movements amongst the productive classes, and in the commercial community, affecting the direction and intensity of their exertions. It is not to be accomplished as inconsequentially as if it were merely the transposition of a quantity from one side of an algebraic equation to another. In the case before us, the acquisition of an additional supply of the precious metals, however brought about, must be preceded or followed by the preparation of equivalent commodities, to give in exchange for them, which implies a demand not before existing; and, to the extent of this demand, there is a greater encouragement of production. The influx of money evidently sets a going a series of efforts and exchanges which would not otherwise take place. The capitalist who supplies the commodities in exchange for the additional quantity of the precious metals, cannot do it without employing more labour and occasioning a demand for other commodities, and thus the movement runs through the community. The result may possibly be that, ultimately, no greater quantity of commodities may exist in the country than before, only they will be at higher prices; and in this, which is the very lowest result to be anticipated, the stimulus may appear merely temporary; and such in fact it is regarded by Hume, who expressly limits the effects to the period of transition and adjustment. Under some circumstances, nevertheless, a further advantage would inevitably arise. There can be little doubt that the temporary stimulus would often lead to permanent improvement, and a positive accession of wealth.

In the hypothetical instance which we have just had under consideration, we have supposed an influx of money and a consequent rise of prices. Inasmuch as this influx would quicken internal interchange, and enhance the existing demand, the effects would be beneficial; but a rise of prices always occasions some change in the distribution of property, or in the command which individuals respectively possess over the capital and labour of the community. From every enhancement of prices, advantages arise to some persons, and disadvantages to others, in numerous ways, of which it will be sufficient here to glance at the principal. Merchants who have bought commodities at a certain price on credit, sell them at a much higher one, perhaps, a few months or a few weeks afterwards, realizing an extraordinary profit. Farmers obtain a greater price for their produce, while they have to pay only the same amount as before in rents and taxes, leaving their net gain greater than formerly. Debtors who have borrowed money, the interest of which is a charge on the profits of any undertaking in which they may be engaged, while they obtain larger gross returns, have to pay only the same sum for interest, and are gainers by the difference. The payers of taxes generally are relieved of part of their burthens. In a word, all persons whose gross receipts rise with the rise of prices, while out of those receipts they have to pay fixed charges, derive an advantage proportioned to the fall in the value of money.

But, whatever advantage is gained by one, is lost by some other member of the community. The holder of goods obtains a higher price, and the producer of coin sells his produce for a larger sum, but the holders of money and the consumers of the goods and the produce sustain a commensurate disadvantage. The landlord gets the same nominal rent of his tenant under lease, but in purchasing his articles of comfort or luxury, he must put up with a smaller quantity for the same money. The creditor obtains the sum he is entitled to, but finds that it has lost part of its power. The profit of one class is at the expense of another. In this process, nevertheless, there is an undoubted encouragement to production. The advantage flowing from a rise of prices would be derived mainly by the industrious capitalist from those who live on rents, pensions, annuities, and interest, and hence there would be that incentive to exertion presented to the minds of farmers, manufacturers, merchants, and tradesmen in general, which extraordinary profits create. This advantage may be unjust; not desirable; not to be purposely sought; but, admitting this, the effect attributed to it remains,—namely, the stimulation of industry. In any great change of the currency, this effect is of immense importance.

On the other hand, it must not be overlooked that a rise of prices is in some respects disadvantageous to the working portion of the community, and through them occasions a counteraction of the effects described. It is no doubt true that the workman cannot fail to partake, in some measure, of the prosperity of his employer, and that when prices rise from an influx of money, wages will have a tendency to rise in proportion; but this implies a good deal of trouble and loss of time on the part of the labouring classes. Masters, in general, do not raise the rate of labour of their own accord; they wait till the rise is asked for, till the competition amongst themselves has shown it to be necessary, and frequently till the workmen refuse to proceed without it. In the mean time the labourer, in attempting to raise his wages, is frequently idle, loses his usual means of support, and production is for a while interrupted and diminished. Nor is it in every species of labour that there is an ultimate adjustment of wages to the reduced value of money. In numerous instances, the labourer receives the same weekly stipend amidst all the fluctuations of the currency: certain fixed fees and other payments for services performed remain nominally the same. And all these irregularities are aggravated by the state of ignorance in which all parties usually are concerning the causes of those vicissitudes which so nearly affect them. It is also requisite to mention, lest the fact, from its comparative unimportance, should appear to have escaped attention, that the greater cheapness of silver and gold as materials in manufactures would stimulate industry, in common with other reductions in value, having the effect of bringing commodities within the reach of a greater number of consumers.

Such are the advantages and disadvantages arising from an increase of money. It may be difficult to form a comparative estimate of the degree in which the happiness of a community is affected by them, but it undoubtedly appears that, on the whole, the industry of a country is stimulated by an expansion of its currency.

Even this result, however, is frequently doomed to encounter a check powerful enough to neutralize all the benefits which have been described. In all commercial countries, an increase of prices, when it appears to be not merely a single unconnected start but part of a progressive movement, rouses a spirit of speculation. A multitude of purchases are made, not in the regular course of transactions which necessarily ensue in the transit of commodities from the producer to the consumer, but with the view of profiting by a further rise. The demand is thus artificially enhanced, prices are swelled, and credit is extraordinarily extended. But this process, in its very nature, must come to a close, and a re-action ensue. An excess of commodities beyond real demand must force back their prices: the game of the speculators is then at an end, others are dragged along with them into ruin, and capital and industry are again fixed in idleness and inaction. The preternatural energy is followed by a collapse. This effect, which may proceed from any cause giving rise to over-trading, is a common result of a forced augmentation of paper money, and is in itself a sufficient beacon to warn governments against any attempt at artificially augmenting the quantity of the instrument of exchange.

The foregoing considerations appear to establish the conclusion, that an increase of the precious metals incites the industry of a country possessing only a scanty and inadequate currency, by facilitating exchanges internally; and it incites the industry of all countries where it takes place by a temporary animation of demand, attended, probably, with permanent improvement, by lightening the fixed burdens on productive capital, and by reducing the value of the precious metals, as materials of art and manufacture; while, on the other hand, such an increase operates disadvantageously by disturbing the relations between the parties to pecuniary contracts, between masters and workmen, and between the holders of money and the holders of other commodities; in which process there is gain to some classes at the expense of others, not contemplated by either; and such an increase is also liable to draw after it all the evils of that reaction which is the frequent consequence of a rise of prices.

On the whole, it may be concluded that, after a country has acquired a sufficiency of the precious metals for the purpose of interchange, any alteration in their value originating on their own side, is to be regarded as an evil and not a good.

Section III.—*Continuation of the Subject.*

The effects of a general rise in the prices of commodities from an increase of money, as here traced, indicate, without the necessity of a minute explanation, the effects of a fall in prices from a decrease of money. These effects are, of course, nearly the reverse. They differ, nevertheless, in intenseness. In this, as in many other instances, misfortune seems to have fewer natural checks than prosperity. A decrease, under any circumstances, has injurious consequences; but they are greatly aggravated when it follows after a sudden and extraordinary abundance.

If, in a certain stage of national opulence, an addition to the quantity of the medial commodity acts beneficially in quickening the circulation of other commodities, and the application of capital and labour to production, a diminution of the quantity must inevitably check these operations. The falling off in the demand for products will be materially aggravated by that want of confidence which always attends a general lowering of prices, and the ruin which will be brought on the heads of many, will have far more extensive consequences than the prosperity which, under contrary circumstances, would have gladdened the community.

The lowering of prices will fall with peculiar hardship on the industrious capitalist, who, out of the diminished returns of money which he will obtain for his productions, will have to pay the usual fixed charges; or who has to sell a stock purchased when commodities were dear, at the reduced rate to which they are now brought. In this condition of the currency, the burden of the taxes will be keenly felt. Worked up to a state of morbid sensibility by feeling that his trade is dwindling away —that his property is crumbling beneath him, without the possibility of stopping the process, the merchant or manufacturer will be peculiarly sensitive to unabated demands on his funds for public purposes, many of which he may disapprove as objects of wanton extravagance.

Of the two parties interested in pecuniary contracts, in rents, annuities, salaries, and wages, one, of course, will gain while the other loses. But it is doubtful whether, as in the reverse case, the gain of the one will be equal to the loss of the other. The tenant before gained all that the landlord lost; but now the tenant is often incapacitated by his loss from paying the accustomed rent, and the landlord is obliged to take less than his legal demand. Neither is the case of the workman exactly a reverse one. When prices rose, he had some difficulty in bringing up his wages to the corresponding rate; and in so far as he failed to do it, his employer was a gainer. Now that prices have fallen, his wages are reduced by a much quicker process, and probably sink to a lower point than the state of prices seems to require, on account of the check given to production. Some individuals of the labouring classes are benefited, but, on the whole, the members of this body usually suffer in both contingencies, both when prices fall, and when prices rise, from an alteration in the quantity of money. It is especially their interest that such vicissitudes should be avoided. The great gainer, in a fall of prices, is the fixed annuitant, who receives the same sum in all conditions of the currency, and to whom every reduction in prices of course gives an ampler command over the commodities of the market.

Amidst the complexity of effects produced by these changes, there is one point not yet adverted to, which must not, however, be passed over. When a nation acquires an additional quantity of metallic money (of which alone we are now treating), or when it loses a portion of the quantity in use it parts with something, or acquires something in exchange. In the first case, as we have endeavoured to show, the influx of the precious metals from abroad usually constitutes a new demand, and a corresponding quantity of commodities are, in all likelihood, produced, over and above what would otherwise have been brought into existence; and with this extraordinary quantity the new supply of the precious metals is paid for. The result of the whole may be that the nation is richer in gold and silver, but no richer in other commodities, although the probability is that it will be richer in both. In the reverse event of an exportation of the precious metals from a country, there is an importation of equivalent commodities from abroad, by which the nation for a while becomes richer in such commodities; but it is attended by a fall of prices, a relaxation of demand, and ultimately a decrease in production, probably far more important than the increase of articles by importation; so that a disadvantage is sustained in the whole transaction.

From this examination, it decidedly appears that the calamities attending a reduction in the quantity of money are far greater than the benefits of an addition to it; and that on this account, if no other consideration existed, it would be at all times the height of folly to attempt to produce an augmentation not likely to be permanent.

The reader will observe that the preceding endeavour to trace the effects of varying prices, has had reference only to changes in value arising from variations in the quantity of the precious metals.

Alterations in the value of money, or, what is the same thing, in the prices of commodities, arising from improvements in productive power, or the contrary, have not necessarily any of the consequences here described, except as they are ultimately the causes of a different distribution of the precious metals through the world. Such alterations in prices, unlike those which spring from variations in the quantity of money, are always limited to the commodity in which the improvement takes place.

It is obvious, however, that nearly all the same effects will follow from any general cause, which, without altering the quantity of money, altered the demand for it, or the uses to which the metal is put. A general cause of this kind is to be found in any increase or decrease of population, as we have explained in a former chapter. It makes little difference whether the general alteration in prices is owing to a reduction in the quantity of money, while the demand remains as before, or from an enlargement of the demand or a multiplication of the uses for which it is required, while the quantity continues unaltered. It is not necessary, therefore, to treat expressly of this particular case.

Another point to which it may be well to call the attention of the reader, is that the effects which we have endeavoured to trace as flowing from an increase or decrease of the precious metals, would have different degrees of intensity in different countries, according to the degree of improvement in the arts, and in national opulence, to which they may have respectively attained. In a rich country, for instance, already pretty thoroughly permeated by the precious metals, the addition or abstraction of a quantity of gold or silver might be comparatively unfelt, while in a poor country, with a scanty currency, the same event might have extensive consequences.

In regard to all countries, it may be remarked that the prosperity apparently attendant on an influx of the precious metals is not wholly and without discrimination to be ascribed to that influx. Instead of being the *cause*, the influx is often the *effect* of prosperity, although it may subsequently operate to augment that by which it was originally produced. The way in which a greater quantity of the precious metals is drawn to a country, and permanently retained in it, has already been adverted to. The country, as we have seen, improves in effective industry, so as to furnish other countries with a greater number of commodities, which they are willing to purchase; and if these countries do not simultaneously improve, so as to furnish an equivalent quantity in return, they must pay the difference in the precious metals. The improving country in this way imports gold and silver instead of other things, and its augmenting stock of these metals is the natural and inevitable consequence of the prosperity of the people, instead of that prosperity being the consequence of the influx of money.

SECTION IV.

On the Effects of Variations in the Value of Paper Money *on the Industry of a Country.*

IN the preceding disquisition on the effects of variations in the quantity and value of money, it has been supposed, for the sake of distinctness, that metallic money was the only kind of currency in existence, and the subject has been treated without any but casual reference to the important instrument which we are now to consider.

The inquiry then presents itself, how far an expansion and contraction of paper money have the same effects as an increase and decrease of metallic money.

It has been shown in a former part of this treatise, that when a nation enlarges its stock of the precious metals, there is usually an increase in the foreign demand for its productions, and that it pays for the additional quantity of gold and silver by commodities, which, in all likelihood, would not have been otherwise produced. Should such a creation of equivalent commodities not take place, there would be a positive sinking of capital.

When a country enlarges the amount of its paper money, there is, of course, no additional demand for its productions from abroad. On the contrary, if such an increase occasions the disappearance of specie (which would be the effect in those cases on which our remarks are intended to bear), the country in question augments its demand for the commodities of other countries; and the capital before sunk in the precious metals, re-appears in the shape of useful and agreeable articles, imported from abroad. Inasmuch as by this process capital is liberated from an unproductive state, there is a stimulus given to industry. The portion of wealth set free is applicable, like other capital, to the employment of labour.

If this substitution of paper for the precious metals is on an extensive scale, it will produce a perceptible effect on the value of the precious metals in other countries, and prices will be generally raised throughout the world, so that, even if the paper money in the country which we have supposed to issue it, were not, in the first instance, to exceed in amount the specie which it displaced, there would be inevitably a rise of prices in that country itself. Economising the uses of the precious metals is, as before observed, tantamount to increasing the supply while the uses remain the same.

An expansion of the currency by the substitution of paper for metallic money, would thus operate on prices like an increase of the precious metals, and would be attended with the advantage of redeeming a certain portion of capital from the unproductive state in which it before lay.

Another point of resemblance between the cases of an increase of metallic and an increase of paper money, consists in the facilitation of interchange. This is an effect indeed which paper money produces in a higher degree than the other; and whenever promissory notes are substituted for specie, property is more rapidly circulated. This phenomenon is easily explained. When a banker lends a quantity of gold and silver, he lends that which has been obtained by parting with actual property; when, on the other hand, he lends his own notes, he lends only his credit: but in the business of interchange, or at least in a great proportion of it, the credit of a man of undoubted stability is as efficient as money itself. It is all that is requisite to bring buyers and sellers together, and it is the banker's interest to deal it out liberally. If no money were in use but metallic, it would be certainly his interest to lend to the extent of his means, but those means would be limited, in a stricter manner than if he were permitted to employ his credit in the ready form of promissory notes. By such an extension of his resources, he is placed in a situation to grant assistance to many persons who would otherwise be inactive, enabling them to appear as purchasers in the market, and obtain materials for the prosecution of their business, which they could not otherwise command. Thus, property, before lying inert, is brought into activity, and motives presented for the production of more.

Under a system of a purely metallic currency, bankers and others would still assist the commercial world by their credit, but on higher terms, and to a smaller amount. The promissory note of a banker payable on demand is only one of the forms in which credit becomes an instrument to facilitate exchanges, but it transcends the rest in convenience and efficiency, especially in the trade between inhabitants of the same district. We are not here speaking of the prudence of the banker in dealing out his resources. If he lend his credit imprudently,—if he push his operations too far, and take advantage of any exclusive privileges to swell the currency beyond what would be spontaneously required, a revulsion must inevitably ensue; but so long as he is able to proceed in an onward course, so long the productive power of the country is stimulated even by his indiscretion. We must not deny a good effect because it is perhaps more than neutralized by a bad one.

The preceding remarks have obviously had reference to that increase of paper money which is produced by the substitution of paper for the precious metals. The effects described are not all of them dependent on the aggregate amount of the currency being increased by this substitution; for if the quantity of the paper exactly supplied the place of the specie superseded, some of these consequences would still arise. But the whole money of the country would as before stated be inevitably augmented, and the effects pointed out would be enhanced. The circumstance which displaced the specie would be a rise in the value of the precious metals from the issue of paper, and of course a proportional rise would be occasioned in other commodities. When, in consequence, the metallic money had been exported, the quantity sent away would occasion a fall in the value of the precious metals in the country to which they were sent, and ultimately in all countries, so that the final result would be an augmentation of paper money, and an enhancement of prices in the country where the paper was issued.

If we take the case of a superabundance of paper money beyond the quantity necessary to replace the specie—such a superabundance as would be produced and permanently maintained by the circumstance of the paper being inconvertible, and liable to an indefinite depreciation, we should still find the same effects accruing. On this supposition, however, the resulting advantages would be far more than counterbalanced by the evils of a fluctuating and unsettled medial commodity.

The depreciation of an inconvertible paper currency by excess of quantity would entail on the community a number of bad consequences, for which the stimulus given to production could never compensate. In addition to all the evils which have been pointed out as accompanying an increase of metallic money, it would cause a violation of all pecuniary contracts. And if, as is most probable, the regulation of such a currency were at the mercy of ignorance, caprice, and sinister interest (principles of action without some or all of which the depreciation would never have taken place), it would shake the security of property, baffle the calculations of ordinary prudence, and consign numerous victims to unexpected ruin. No advantage could counterbalance the single evil of unsettling money bargains,—none the positive dishonesty of compelling a creditor to receive less than his contract.

We have seen that even the lowering of the value of money, from natural or unavoidable causes, tends to encourage speculation, and is apt to bring on a calamitous revulsion; but the depreciation of an inconvertible paper currency must inevitably lead to some crisis of a still more disastrous character, and inflict, in the meantime, the thousand ills of uncertainty and apprehension.

The effects of a diminution in the quantity of paper money may be easily gathered from what has been said of the effects of an augmentation. For the sake of clearness, we will suppose the paper to be convertible into coin, and consequently undepreciated, and that the diminution is effected by a law prohibiting paper money altogether, or notes under a certain amount hitherto in circulation—prohibitions the same in kind, although not in degree.

Such a diminution would have the immediate effect of sinking so much of the national capital, as it would be requisite to export in exchange for a quantity of the precious metals to supply the place of the paper.

It would have the further effect of raising the value of gold and silver, more or less, in the whole world, and of course (it being in fact one and the same thing), of depressing prices. In as far as it lowered prices, it would injure the industrious classes for the benefit of those who live on rents, interest, and taxes, in the manner described when we were treating of variations in metallic money. In addition to these discouragements to industry, it would instantaneously check production to a great extent by lessening the means of interchanging products. The circulation of commodities through the credit of the banker would be no longer so rapid and complete. There would be a universal contraction of mercantile confidence, and a withdrawal of accommodation. The accumulation of products in inert masses would relax the motives to produce. The union of all these circumstances would necessarily occasion a state of general embarrassment and distress in the commercial community, the ruin of a number of manufacturers, merchants, and shopkeepers, want of employment and support amongst the labourers and artisans, with all the misery to their families which these calamities involve.

But if such would be the effects of a diminution in the quantity of a convertible and undepreciated paper currency, we may easily understand how formidable would be the evils flowing from a contraction of one which was inconvertible and greatly depreciated below its declared value, in order to bring it back to its original condition. All the ruinous consequences which have been enumerated would follow in an aggravated form; and the minds of the sufferers would probably be exasperated by the conviction that they were suffering from the ignorance or sinister policy of their rulers.

One of the most memorable instances on record of such a restoration of a paper currency depreciated by inconvertibility and consequent excess, is that which took place in England a few years after the termination of the war with France in 1815. Although the contraction necessary to restore the value of the paper was gradual, and the operation was favoured by the circumstances of the times, the embarrassment and distress attendant upon it were extensive and severe. In 1814, one hundred pounds in paper currency was worth only seventy-five pounds in gold: in 1821, the paper was at par. Thus, on the lowest estimate, the pressure of fixed burdens was increased in that space of time after the rate of $33\frac{1}{3}$ per cent, and prices fell at least 25 per cent. The effects on national prosperity of so extensive a variation in the value of the currency may be easily imagined from what has been already said.

PART II.

On the Effects of Variations in the Value of Money on Pecuniary Contracts.

In the preceding division of this chapter, we have endeavoured to trace the effects of variations in the value of money on the industry of a country, in doing which we have incidentally touched on the consequences of such changes to the two parties in pecuniary contracts. These latter consequences are, however, of so much importance as to demand a more particular examination. It is, as we have already seen, by the manner in which debtors and creditors are affected, that the effects of variations in the value of money on the industry of a country are partly occasioned; and perhaps the principal importance of such variations consists not in their influence on general industry, but in their special consequences to the parties concerned in pecuniary bargains.

In the apprehension of most people, the money of a country has a sort of fixed value, not liable to change, and all vicissitudes in prices are ascribed to circumstances directly affecting the supply and demand of commodities. Hence contracts are entered into without the parties being at all aware of the liabilities to which they expose themselves. They do not dream that while the conditions of supply and demand affecting all other things remain unaltered, their bargains may prove utterly ruinous, from a falling off in the supply of the precious metals. Yet there are strong grounds for believing that within the last twenty years this diminution of supply has precipitated numbers of people into difficulties of the secret cause of which they did not entertain the slightest suspicion.

This consideration is quite sufficient to show that the subject is worth investigation. In the subsequent pages, it is proposed to consider—1st, The nature of pecuniary contracts; 2d, the advantages and disadvantages accruing to the two parties from changes in the value of money; 3d, the principle by which such contracts should be governed.

Sect. I.

On the Nature of Pecuniary Contracts.

The simplest pecuniary contract which is entered into, and which may be considered as virtually representing all others, takes place when one man lends another a sum of money, to be returned to him at some future period: as, for instance, at the end of twelve months.

In this case, the nature of the transaction is really this: the lender grants the use of a certain number of pieces of metal of given weight and fineness, during a definite period, on condition that an equal number of pieces of the same weight and fineness shall be restored at the expiration of the time. If we simplify the matter, by putting aside the consideration of the circumstances attaching to coin, which are not essential to our purpose, it is the loan of a definite quantity of gold or silver, on condition that an equal quantity be returned.

Now, let it be observed that there is here no question at all of *value*, or what quantity of any commodity, or set of commodities, the gold will command in exchange. This has no part in the contract. The agreement respects the quantity, and not the value of the gold: it has nothing to do with the purchasing power of gold in the market. The owner of the gold allows the borrower the use of the metal, just as the owner of a spade or a plough might lend the implement to a neighbour, on condition of its being restored in the same state. It is true, the owner of the gold does not require a return of the same identical pieces of metal, as the owner of the spade would probably insist on the restoration of the identical spade, and for the reason before mentioned, that one pound of gold is precisely like another, or one piece of good money resembles in every respect others of the same denomination; and, therefore, to exact a return of the pieces actually lent would be perfectly useless to the lender, while it would be incompatible with the object for which all money is borrowed,—namely, the power of transferring it to some one else.

Should the transaction be somewhat more

complex—should there be a stipulation that interest should be paid for the use of the money, still the nature of the contract would remain the same. It would be merely requiring that, in addition to the restoration of the orignal quantity of gold, a certain smaller quantity should be given to the lender for its use. There would be still no consideration, no question about value, but simply about quantity. The bargain would in no respect differ from one which had wheat for its subject, instead of money; or a spade, or a plough. It would be an analogous case if one farmer lent another a plough, on condition of receiving back not only the plough, but a new handle or a new share.

This is a correct representation of the nature of all mere pecuniary bargains, whether loans or annuities; and it is so particularly desirable to notice that in such bargains the question is not at all of *value*, but of *quantity*, that the reader will pardon a little repetition. When I lend a sum of money, I make no reference at all to its *value*,—that is, of the relation of money to other articles: I never think of them: I stipulate only for the return of the quantity of money lent, along with such an additional quantity for its use as may be agreed upon. If I referred to the value of the sum lent, it would be necessarily its value in some one thing, or in several things, and then my bargain would be in effect for a return of certain quantities of these things. We must come to a *quantity* of something at the last.

A steady application of this simple principle would remove many of the difficulties which are generally considered to embarrass this question.

It is true, that contracts may be made which shall have reference to the value of gold or silver, as well as to its quantity: and in some cases very properly. I may, with great propriety, stipulate that inasmuch as the £100. which I lend when wheat is at 50s. the quarter, is equal to 40 quarters of Wheat, the value of 40 quarters of wheat shall be returned to me when the loan is repaid. In effect, this is, as already remarked, lending the wheat. In the same way, any other commodity may be lent, or any other stipulation may be made. The freedom of bargains is and ought to be quite unrestricted. But where no express condition of this sort is made, the contract amounts to what I have before stated it to be, a loan of quantity without reference to value; and the loan is fully repaid when the original quantity is restored, with the additional portion contracted for as interest. This is the only construction that can be put upon a pecuniary contract, for if any one insists that it is a contract for a certain value, he is bound to show in relation to what commodity this value is to be, and then the matter would be reduced into a bargain for a quantity of that commodity: thus, he would be maintaining that a pecuniary contract does not relate to a quantity of money as expressed on the face of it, but to a quantity of some commodity of which no mention is made. This view is undoubtedly very different from that which has been frequently entertained. It has been usually assumed that, in cases of loans, an injustice is committed if the same value is not restored as well as the same quantity: it has been considered, that is to say, that the sum paid back should enable the owner to command neither more nor less than the quantity of commodities in the market which he could have commanded when the money was originally lent.

How far this might be a desirable circumstance, if it could be effected, is questionable:

but it is certainly not required by justice or equity. It is not just that the man who borrows a spade from another when it is 2s. 6d. in price, and restores it when it is 5s. should be obliged to return two spades, unless a special agreement to that effect has been made: neither can it be just that a man who borrows a pound of gold should be obliged to restore two pounds, on the ground that a pound of gold will, at the time of repayment, purchase only half the quantity of wheat or other commodities that it could have purchased when the loan was advanced.

The matter would be perfectly plain if the use which is made of gold permitted the identity of the individual pound borrowed to be preserved. No one in that case would think of anything more than the restoration of the original gold. An instance closely analogous occurs when, as is by no means uncommon, a service of plate is lent by one individual to another for a specified compensation. The lender, on receiving back his plate at the end of a dozen months or a dozen years, would make no claim on account of the altered relation of the metal to other commodities. All that he would look for would be the restoration of the original articles in an uninjured condition.

And this is also precisely what happens in the case of a farm let on lease. The landlord receives it back at the expiration of the lease without any reference to the changes in its value from the altered state of society. It may have risen from the value of 10,000 to 20,000 pounds during the currency of the contract, but the landlord would never for a moment think that he ought on that account to be content with half the quantity of land originally leased.

If farms were all alike except in size, were the same virtual identity in them that there is in pounds of gold, so that it would be perfectly immaterial whether the owner received the actual farm let out, or another of the same dimensions, the justice or equity of the matter would not be altered: he would justly claim the restoration of a farm of the same size, without reference to its value in the market. And what would be just in the case of a farm is equally just in the case of the gold.

The extent to which pecuniary bargains for long periods have been carried in modern times, and the way in which they have become interwoven with national prosperity, render it highly important that their nature should be clearly apprehended. If the subject had been perfectly understood in all its bearings, it is impossible to suppose that the extravagant contracts would have been entered into which have entailed such enormous and unnecessary burdens on the existing generation.

But it is perhaps idle and inconsistent to lament that ignorance should have prevailed on one particular point of policy. The intelligence which could have comprehended the whole subject of a medial commodity would have seen the folly of embarking at all in the enterprises on which the resources of the country were so lavishly expended.

In the view which has here been given of pecuniary bargains, it is satisfactory to have the support of some eminent writers. Locke, whose writings on the subject of money generally, and especially on the still more difficult subject of value, show a clearness of comprehension and precision of language rarely attained by later authors, has expressed himself on this point in a manner which could hardly be improved :—"Mr. Lowndes," he writes, "says that silver in England is grown scarce, and consequently dearer, and so is of higher price. Let us grant, for the present, it is of higher price (which how he makes out I shall examine by and by). This, if it were so, ought not to annul any man's bargain, nor make him receive less in quantity than he lent. He was to receive again the same sum, and the public authority was guarantee that the same sum should have the same quantity of silver, under the same denomination. And the reason is plain, why in justice he ought to have the same quantity of silver again, notwithstanding any pretended rise of its value; for if silver had grown more plentiful, and by consequence (by our author's rule) cheaper, his debtor would not have been compelled, by the public authority, to have paid him, in consideration of its cheapness, a greater quantity of silver than they contracted for. Cocoa-nuts were the money of part of America when we first came thither. Suppose, then, you had lent me, last year, three hundred, or fifteen score cocoa-nuts, to be repaid this year, would you be satisfied, and think yourself paid your due, if I should tell you, cocoa-nuts were scarce this year, and that four-score were of as much value this year as a hundred the last, and that, therefore, you were well and fully paid, if I restored to you only 240 for the 300 I borrowed? Would you not think yourself defrauded of two-thirds of your right by such a payment?"*

An equally explicit passage is to be found in the writings of the late Mr. Huskisson. In his valuable pamphlet entitled, "The Question concerning the Depreciation of our Currency Stated and Examined," he says:

"The value of the precious metals, relatively to other commodities, cannot be fixed. It is subject to be affected by the same circumstances of abundance, scarcity, supply, or demand, as affect the value of all other articles. That it has greatly decreased within the period which has elapsed since the discovery of America, is notorious;—that it continues to decrease slowly and progressively, I am also disposed to believe. This is an inconvenience, but it is not an injustice to a creditor. All that he has any right to expect—all that his contract stipulates, and the law guarantees, is, that the *quantity shall be the same; not that the value of that quantity shall continue invariably to bear a proportion relatively as favourable to that of other commodities.* The reverse might

* Essay on Money.

have been the case, still he would have been entitled to the same quantity. True it is, that the natural and progressive diminution of the value of money is peculiarly felt by that class of the community which depends upon fixed incomes;—true it is that the unavoidable increase of taxation adds to this peculiar pressure. The more incumbent is it upon the legislature not to aggravate this pressure by prolonging a system which in its effects greatly outsteps the natural course of events; and not to augment the amount of the necessary deductions from income by one which adds nothing to the revenue of the state."*

In the preceding remarks, those pecuniary bargains alone have been spoken of in which money is the only commodity concerned, but it is obvious that all stipulations for the future payment of money, whether for articles of any kind sold on credit, or for services, or as rent of land or houses, are precisely in the same condition as pure loans of the medial commodity. If A. sells a ton of iron to B. for ten

* Page 86.

pounds, at twelve months' credit, it is just the same in effect as lending the ten pounds for a year, and the interests of the two contracting parties will be affected by changes in the currency, in exactly the same manner, and to the same extent, in both cases. Both in this section, then, and in future chapters and sections, the observations made with regard to loans are to be considered applicable to all other money bargains, although no express reference to the latter should appear.

Sect. II.

On the Effects of Variations in the Value of Metallic *Money on Pecuniary Contracts.*

Although, in a pecuniary bargain or loan, the claims of the parties are quite satisfied when one receives, and the other pays, the stipulated quantity of gold or silver, without any reference to value, yet it is of importance to inquire how they are affected by changes in the value of the commodity in which the bargain is made.

In the case of a pecuniary loan, four changes may take place, affecting the contracting parties:

1. Money may rise in value, in relation to other commodities, from an alteration in the market, originating on its own side.

2. It may fall in value, from a similar cause.

3. It may rise in value, from an alteration on the side of other commodities.

4. It may fall in value from such an alteration.

1. To ascertain the effects of the first occurrence, suppose that A. lends B. one hundred pounds in the year 1830, and B. repays the sum in 1840. In the interval, the difficulty of obtaining an adequate supply of gold has increased to so great a degree, that the same quantity of metal will purchase double the quantity of other commodities. When, therefore, A. receives back the sum lent, he obtains indeed only the same quantity, but that quantity has double power in the market. He is, therefore, a fortunate man.

B., on the other hand, has to pay what A. receives. Persons who borrow money have some employment for it; and the probability is, that he borrows it to employ in trade or agriculture. He purchases, we will suppose, the materials necessary for his business, and works them up for the market; but in the interval which elapses between the first step of preparation and the sale, prices fall, and he is obliged to sell his commodity for less than he expected. Through the whole process of the fall of prices, he is continually losing, obtaining less and less for his commodity, and having to pay the same sum for the use of the money. At the expiration of the ten years, he will probably have lost a considerable part of the original hundred pounds which he borrowed, and will have to repay the loan to A by a sacrifice of his other property, or by a tax on the products of his future industry, in the shape of an annuity, or interest. The result to the two parties is simply this, that A not only gains during the fall of prices, from receiving the same amount of money as interest, which enables him to command annually a larger quantity of commodities; but at the expiration of the term, receives back a sum, which, although the same in quantity, possesses double its original power in the market. B loses what A gains. There is no new fund out of which the advantages obtained by A can come, and they must therefore come out of the property of B, or that of other producers and proprietors. The whole affair resolves itself into a transfer from one to the other. If we suppose the money in question to be lent to a landowner, who employs it in cultivating his estate, we shall find the same result. His gross receipts, from the sale of his produce, would be progressively diminishing, while the fixed burthen of the loan would continue the same.

2. In the case of a fall in the value of money from an increased supply, relatively to the demand, the effects would be simply reversed. A., the lender, would be continually losing, and would finally receive a sum which left him only half the power of commanding the comforts and conveniencies of life, which he originally possessed. B., the borrower, would be continually gaining, from the enhanced prices of his commodities, while the fixed charge of interest would remain the same. His net residue would be augmented so as to enable him to command more than the usual quantity of commodities, notwithstanding their rise in price. One's loss would be the other's gain. It would be a case of transfer. There would be no new fund, out of which the profit of one could come without detriment to the other.

3. The third case to be considered, is a rise in the value of money from a change originating on the side of other commodities. Suppose the facility of producing all commodities, except gold, were so increased that they could be supplied at prices fifty per cent lower than when A lent the £100. to B. What would be the effect on the parties to the contract?

In regard to A the lender, the effect would be the same in many respects, as if the increased value of money had arisen, from circumstances acting directly on the precious metals. He would be enabled at the end of the term to command double the quantity of commodities. He would not, however, be able to command double the quantity of labour, and there might be a few other cases of exception.

To the borrower, B, the effects of a reduction of prices in this case would be very different from those in the other. In the supposed fall of prices from a deficient supply of the precious metals, he was obliged to sell his commodities for a less price, without a proportionate diminution in the cost; but now he sells them at a less price, only because they cost him less. The fact of their costing him less, implies that he has in-invented or adopted improved methods of production, and it is probable that these new methods have enabled him, at the outset at least, to obtain extraordinary profits. The fund, therefore, out of which he has to pay interest on the loan is, on the least favourable supposition, undiminished, and in all likelihood increased. But there is still another advantage which he possesses in this case beyond what he possessed in the former one. *Then*, although the prices of the commodities which he personally consumed, fell in the same proportion as the commodity which he prepared for the market, yet his profits being more than proportionably reduced, he could no longer command the same quantity of such commodities out of his net residue; *now*, not only the prices of commodities are proportionably reduced, but his net residue remains undiminished, or is even augmented, so that he can command a larger quantity of desirable articles.

In this case, therefore, while A, the lender, obtains a great advantage, B, the borrower sustains, at the worst, no loss; nay, even participates in the general gain.

In the former instance of a rise in the value of money, originating on its own side, there was no fund out of which A could gain, but the loss sustained by B and others. Here, on the contrary, there is a fund out of which both draw an advantage, namely, the increased quantity of commodities produced by the same quantity of labour. Of these commodities they both simultaneously obtain a greater portion.

4. The fourth case—(one not very likely to happen, except partially)—is a fall in the value of money, or a rise in prices, from increased difficulty in the production of other commodities. Supposing prices to be doubled from this circumstance, how would A and B be affected in their pecuniary arrangement?

To A, the effect would be the same as in case 2, except that he would, in the present case, command a larger quantity of labour than in the other.

To B, it would be extremely different.

He could produce, according to the supposition, only half the quantity of his commodity which he would sell for the same sum as that for which he sold the whole before. He might get the same profits, and have the same net residue after paying the interest, but it would command only half the accustomed quantity of such commodities as he consumed, although it might command more than that proportion of the accustomed quantity of labour. Here both A and B would lose nearly half the efficiency of their incomes. This loss would arise from the diminution of productive power, and not from the transfer of any advantage from one to the other. The fund out of which they both drew would be diminished, and they would both consequently draw less.

The cases we have here supposed, are perhaps, such as could not possibly occur in the precise and extreme form in which they are put down. In actual affairs a number of counteractions and anomalies arise. As far, nevertheless, as any real instance resembled any of our hypothetical ones, the effects would take place, which is all that the argument requires.

Section III.

On the adjustment of such Effects.

Having traced the effects of these several contingencies, it remains to consider how far the conclusion before come to respecting pecuniary contracts—namely that the quantity of the money should alone be taken into account—ought to be modified by the results of this investigation. Is there any thing in these results which would render it just and wise to deviate from the principle already established? It appears, for instance, in case No. 1, that an adherence to the principle of quantity, though it would be literally according to agreement, would be virtually unjust; and that if value were the criterion applied, neither party would be at all injured. As A could gain only by the loss of B, and that in a manner not contemplated by the parties themselves, it would seem quite fair, were it practicable, that at the end of the term, during which the loan continues, they should be placed in the same virtual position as they were in at the beginning.

It may, at all events, throw some light on the subject, if we put aside for the present the conclusions before arrived at, as to the nature of pecuniary bargains, and endeavour to ascertain, from a consideration of the effects of changes in the value of money, the fairest mode of settling the claims of lenders and borrowers under such changes, abstractedly from all difficulties arising from want of knowledge or want of power; or, in other words, on the supposition that we were omniscient to discern, and omnipotent to carry into effect, whatever arrangement would be most consonant with rigid justice.

We will begin by considering the two last cases, namely, those in which the changes in value originate on the side of the commodities, and not on the side of the money. In the case nnmbered 3, where the facility of production is supposed to be doubled, both parties are gainers; one does not profit at the expense of the other, and consequently there can be no pretext for interfering with the literal construction of the contract, as a contract for quantity without reference to value. There is not even the ostensible ground that the alteration in prices has originated on the side of the metal in which the bargain has been made.

It is true that A, at the expiration of the loan, obtains a quantity of money which although the same in weight commands double the quantity of commodities: but this is an advantage common to the whole community: it is shared by the borrower B. If B, nevertheless were to repay only half the sum originally borrowed, under the notion that £50. would give to A the same command of commodities that £100 did when the loan was originally advanced, A. would be the only person not benefitted by the progress of society. B. would be twice benefitted: once in the way already described, and once by repaying only half the quantity of money borrowed. There is no reason why A. the lender, should not partake in the advantages derived by the community at large from improvements in production, of which his capital is in truth one of the instruments. It is a participation in a newly created fund, and not a mere transference of property belonging to others.

In the reverse case (numbered the fourth), both parties to the pecuniary contract would be sufferers: one would not gain what the other lost, but the disadvantage sustained would be common to them, and to the whole community. It would evidently be unjust to compel B to repay to A double the original sum lent, on the ground that double the sum would be necessary to place the latter in a situation to command the same quantity of commodities which he could have purchased when the contract was made. At the best, B must lose proportionally with A, and there is no shadow of a reason why he should suffer more. As, in the preceding case, both would justly participate in the improvement of society; so in this, both would justly bear their share of the loss arising from increased difficulty of production. If the whole regulation of the matter were under the controul of the wisest tribunal it could not interfere with advantage in these two cases.

The two cases just considered present no difficulty, and can raise no question. The only difference of opinion which can arise, will be in regard to the two cases remaining to be examined.

In case No. 1, A gains what B loses: in case No. 2, B gains what A loses. The decision of the question, in one case, will apply, *mutatis mutandis*, to the other.

In case No. 1, the parties to the bargain would be maintained in exactly their original relative position throughout the term, as well as at the close of the contract, if B paid annually to A for interest such a sum as would command, at the time of payment, a quantity of commodities equal to that which five pounds would have commanded at the outset; and if, further, at the expiration of the term, he repaid to A half of the original sum of £100; or, to express it more briefly and simply, if the payments were regulated on the principle of value, instead of the principle of quantity. If no other circumstances were to be taken into account, this, then, would be the fair mode of adjustment. Neither party would gain at the expense of the other.

But there are other circumstances to be taken into account in the actual affairs of the world, If the bargain were originally entered into with a full knowledge, on the part of both borrower and lender, of the nature of the contract, then there could be no ground for protecting one from loss. Both would have made the agreement with the understanding that money is subject to variations in value, originating on its own side; that they were to take the risk of such variations, and that the *quantity* of the money, not the *value*, was the thing stipulated for in the contract. Which of them gained, or which of them lost, would be a point not to be considered. It would be like many other bargains in which both parties are aware that they encounter the chances of loss or gain. The party who ultimately gains incurred the risk of loss. The party who ultimately loses took the probabilities of gain.

The same conclusion might be drawn if the contracting parties had the opportunity of acquiring the requisite knowledge previous to making the bargain. If a man will not take the trouble of obtaining accessible information, he must suffer the consequences.

The difficult case is, where the nature of the bargain is not understood by the contracting parties, not from any fault of negligence or inattention, but from the complexity of the subject, or from the imperfect state of general knowledge regarding it. Under these circumstances, grievous mistakes may be committed, without any suspicion of their character on either side; and consequences may follow which were never foreseen, and against which, had they been foreseen, the contracting parties would have been perfectly willing to guard each other. A, for instance, might have readily agreed to accept £50 at the end of the ten years, in lieu of £100, could he have foreseen that it would virtually possess the same value in the market as £100 possessed at the beginning; while B certainly, with a clear perception of the future, would never have consented to the return of the full sum.

We seem obliged to conclude, that, as to contracts made in unavoidable ignorance of some of the chief consequences attending them—of the gains and losses which they would bring to the contractors from non-apparent causes—it would be consonant with equity that they should be adjusted according to the spirit in which they were made, or the intentions of the persons who were parties to them.

In regard to the subjects of money, and pecuniary bargains, it is notorious that, till within a few years, the grossest ignorance existed, both in individuals and governments. Contracts of great magnitude, affecting deeply the welfare of existing communities, and generations yet unborn, were entered into without any adequate perception of their real character. The nature of money, the regulating principles of value, the causes of high and low prices, were not understood, much less their connexion with the extensive and important bargains which were made with all the intrepidity of a perfect knowledge or a perfect ignorance of these difficult subjects.

It would seem, then, that contracts made under these circumstances might with justice be revised and rectified, were it in the scope of human ability to distinguish such cases, and effect such an adjustment. It is necessary, however, in coming to any practical application of this conclusion, to mark well the grounds on which it has been formed. Before any such revision and rectification of pecuniary contracts can be attempted with propriety, it must be perfectly clear, first, that the changes in value have originated on the side of the money; secondly, that the parties to the bargain were ignorant of the nature and consequences of the contract into which they were entering; and, thirdly, that their ignorance was not the result of negligence or design, but unavoidable. A further requisite condition is, that we have power to carry the measure into effect without producing preponderant evil. If these conditions are not satisfied, we must fall back on the principle of repaying quantity for quantity, without any reference to value, and leave the losing parties to bear their losses unredressed, as being the nearest practical approximation to justice and wisdom.

Now, it may be confidently affirmed that not one of these conditions can be satisfied. With regard to the first, which requires it to be perfectly clear that the changes in value have originated on the side of the money, the difficulty is almost insurmountable. There are so many causes operating simultaneously to alter prices—some permanent, some temporary—some affecting one commodity, some another—some affecting whole classes of productions—some in this direction, some in the opposite—that it becomes next to impossible to pronounce how far the changes have originated on the side of the money, or of the commodities; or how far causes acting on these opposite sides have counteracted each other. Nor can it in general be more certain to what extent the contracting parties were ignorant or enlightened in regard to the nature and consequences of the bargain into which they entered, nor what portion of their ignorance was owing to culpable negligence. Amidst all the ignorance, for example, which prevailed when a great part of the British national debt was contracted, it may be doubted whether the lenders had any view but that of receiving a certain quantity of money as an annuity; whether they had not a perception, more or less clear, of the true principle of money bargains, and were willing to abide by it at all risks.

The difficulties arising from these sources would effectually prevent any satisfactory adjustment, and would embarrass the attempt with so much discontent, so many doubts, disputes, and animosities, as would counterbalance any advantage, if any could be obtained.

Hence, it appears that it would not be possible for the power of the State to enforce any regulation by which, at certain appointed times, a review of all money bargains which had taken place during the intervening periods should be instituted, and an adjustment effected on the principle here in question. The impossibility of a universal review of this kind needs no demonstration to any one who for a moment reflects what is implied in it; and any partial investigation and revisal, besides being unsatisfactory, would probably inflict more injustice than they remedied. Many things are desirable in themselves, which legislation cannot even attempt to accomplish, without more evil than the objects are worth.

A better course of proceeding than such a periodical revision would be to enact, that, in as far as any changes had arisen on the side of the money, all contracts should be adjusted according to value and not quantity, as their fulfilment became due. But the parties to contracts are at present perfectly at liberty to make this a condition in their bargains, and their not doing so is a proof either that it is inexpedient or that it is impracticable. On either supposition there can be no call for the interference of the State. The reasons already assigned are sufficient to show that such an adjustment is in truth beyond the scope of human ability.

As a proof of the impracticability of coming to any satisfactory conclusion as to the degree in which a change in prices has originated on the side of the precious metals, or on that of other commodities, I may adduce the contradictoy opinions recently pressed on the public attention concerning the causes of that great depression which the prices of almost all articles have undergone during the last twenty years.

It is generally agreed that down to the year 1810, the produce of the American mines continued to increase. In that year, however, the political disturbances which broke out in the Spanish Colonies interrupted the regular pursuits of industry, and appear to have been particularly injurious to the occupation of mining. Many of the owners of mines withdrew their capital and fled, the works were destroyed, and the employment abandoned by the workmen. Mr. Jacob, in his elaborate treatise on the production and consumption of the precious metals, estimates the annual produce of the American mines from 1810 to 1829 at £4,036,838, which appears to be less by one half than the annual produce of the ten years preceding. And taking into the calculation also the European mines, the whole supply from these sources has decreased to the extent of four millions, or four millions and a-half annually, which would make an aggregate diminution of the supply in twenty years to the extent of 80 or 90 millions. Now, as the whole gold and silver coin existing in Europe is calculated not to exceed 300 millions, here, it is urged, is a sufficient cause for the greater part of that fall of prices which has been so remarkable a phenomenon during the period in question, and which has so powerfully affected the commercial community. If prices depend on the quantity of precious metals in the world, and if the supply is so seriously diminished, the fall in money value, of almost all commodities, is surely accounted for; especially when we take into view the simultaneous increase in the demand for the precious metals, arising from the vast progress of population, from the substitution of coin for paper money in this and other countries, and from the more extensive use of these metals for ornamental and luxurious purposes.

On the other hand, it is contended by those who ascribe the fall in prices to other causes, that there is considerable doubt as to these statements concerning the existing amount of the precious metals, and the decrease in the total supply. Even allowing them to be correct, it is urged that the deficiency in the supply from America has been fully counteracted by the stoppage of the exportation to the East. Previous to 1814, when the India trade was thrown open to individual enterprise, payments from Europe were made to Asia, in gold and silver. At present, owing probably to the extended demand for European goods by the native population, and to the large exports of opium to China, the shipments of bullion from Europe have almost ceased. The closing of this drain, it is urged, makes up for the defalcation in the produce of the mines, so that the present supply, applicable to the purposes of European commerce and manufactures, is as large as that of any former period. Moreover, the prevalence of peace has brought into the market, not only the specie absorbed by military chests, but all those other hoards of coin which are the usual effects of insecurity produced by war: and the extension of the banking system has had a similar result in drawing forth the little treasures of a number of poor people, which, however trivial individually, become important in the aggregate.

Nor is it necessary, say these economists, to have recourse to a falling-off in the supply of the precious metals, in order to account for the general depression of prices. There is not an instance of any article falling in price, which may not be traced to some cause, independent of any change originating on the side of gold and silver. The lowering of its cost of production, the opening of cheaper markets, and in the case of monopolised commodities, either the abolition of the monopoly or the greater abundance in which they are supplied, are singly, or in combination, quite adequate to explain every instance of decline in money value.

Without pretending to decide in this place, a controversy involving the examination of so many complicated considerations, I have introduced this cursory view of it to show the difficulty of ascertaining whether an alteration in prices has originated on the side of the precious metals or on the side of other commodities; or whether it has been the joint result of concurring or counteracting causes operating some on one and some on the other; and in the event of its having originated on the side of both, what share of the change or of the counteraction was due to each. This difficulty constitutes in itself a sufficient reason why no attempt should be made to regulate contracts by the value of money, or its purchasing power in the market, and why we should adhere to the sound and simple principle of quantity for quantity.

Section IV.

On the Effects of Variations in the Value of Paper *Money upon Pecuniary Contracts; and on the Adjustment of such Effects.*

It has been already shown that a pecuniary contract or loan is simply the lending of a quantity of gold on condition that the same quantity be returned under certain stipulations as to time, interest, and other points, not essential to our present purpose.

Where a convertible paper currency is established, the nature of the contract is not altered, and the effects of any changes in value on pecuniary bargains are the same, as where the currency is metallic. Paper may be used instead of gold, but as such paper could be instantly turned into the quantity of gold specified on the face of the notes, the transaction is virtually a loan of so much metal.

But there may be an inconvertible paper currency, and this paper currency may be depreciated, or, in other words, may not be exchangeable for the sum which is expressed on its face. Such a state of affairs may give rise to difficulties in pecuniary contracts, not easy to overcome. For the purpose of illustration, two cases may be selected, which will virtually include all others.

1. Loans borrowed in coin or convertible paper, may be paid off in a depreciated inconvertible paper currency.

2. Loans may be borrowed during the prevalence of the latter, and paid off in a convertible currency.

And here it may be remarked, to supply any deficiency of reference to a case which is included in that which is explained, that the same principles are applicable to the payment of interest during the continuance of a loan, as to the repayment of the principal at the expiration of the term. If justice requires that the quantity of gold lent should be repaid independently of value, so also it requires that a proportional quantity should be paid as interest, according to agreement, exempt from all reference to its purchasing power. In all these cases, what holds good of the principal will obviously hold good of the interest, the latter being only a quantity bearing a certain ratio to the former.

This being premised, we return to the two cases proposed for consideration, which, in truth, present no difficulty. A sum of money borrowed in a convertible paper currency, is in effect a certain quantity of gold or silver, and when it is repaid, the same quantity of the metal should be returned. If the currency in the meanwhile has become depreciated by being rendered inconvertible, and the loan is repaid in such depreciated paper, a smaller quantity of metal is returned to the lender, and he is, therefore, defrauded of his due. The currency which he receives, although the same in nominal amount, is not what it professes to be: it will not command the sum expressed on its face. The sum thus expressed is virtually a certain quantity of metal; it is not a certain *value*, that is to say, a power of commanding other commodities in exchange, but a quantity. The term *pound* once signified a pound weight of silver, and although it has no longer the same signification, it still indicates a definite quantity of gold or silver. If a one pound Bank Note will not command in the market this definite quantity, it is below its own declaration, it is depreciated in value; and if employed to pay off a debt contracted when it was worth what it professes to be, it is made the instrument of fraud. The lender is deprived by a trick of part of the money which the borrower agreed to repay. A fraud is equally committed when interest on the loan is paid in the same depreciated currency.

If the simple truth had been clearly understood, that all pecuniary contracts were concerned with the quantity, and not the value of the money lent—that all loans are, in effect, loans of a quantity of metal to be repaid by a like quantity, or a proportionate annual quantity in the shape of interest, and have nothing to do with the value of the sum borrowed and repaid,—that the promise on a Bank Note is an engagement to deliver to the bearer a certain quantity of gold without reference to its power in the market; a multitude of important errors would have been avoided. With such knowledge it would have been impossible to fall into them.

It was at one time made a question, whether bank notes were depreciated, although an ounce of gold cost 85s. or 90s. in paper—a question, which could not have been entertained for a moment, had it been considered that the promise on the face of a note is to pay a specified quantity of gold, and if the note will not command that quantity, its purchasing power is lower than it is professed to be; in other words, the note is depreciated; the test of depreciation being the smaller quantity commanded. If the promise on the face of a note to pay a pound sterling does not indicate or express a specific quantity of gold it has no meaning. It in no wise differs from a promise to pay a quarter of wheat, and the absurdity of contending that a note is not depreciated when it is not worth that quantity of gold, is quite as great as any one would commit, who should maintain that the promise concerning the wheat is punctually performed by handing over half a quarter to the person in favour of whom it was made. It would seem as if in the minds of some men the term *pound* meant a certain abstract value, the virtue of which lay altogether in the name.

From what has been now said, it is obvious that during the war with France, when a guinea would sell for 30s. in paper, all lenders of money at a fixed rate of interest who had made their advances before the depreciation, yet after the depreciation had begun, continued to receive the same nominal amount in paper, were sustaining a great injustice through the measures of the Government. Public and private loans and other contracts fared alike. The paper-money would no longer command the quantity of gold promised on the face of the notes, and, therefore, in effect the lender received only part of that quantity of metal which the borrower had covenanted to pay. Nothing could be a grosser violation of justice, and nothing but profound ignorance of the nature of pecuniary bargains could have led a government with any pretensions to morality, into measures the effect of which was to commit an unsuspected fraud under the mask of law. And yet the matter is so simple, the truth so plain, that we are astonished how they could help perceiving it. The confusion of ideas on the subject could never have prevailed but for the accidental circumstance that the term pound had lost its original meaning, and was no longer a designation of weight when applied to the currency. Had bank notes distinctly expressed in ounces or grains the quantity of gold which they represented, the dullest intellect could scarcely have been deceived.

The reversecase presents no greater difficulty. The lender of a sum of money in a depreciated paper currency does not lend the quantity of metal expressed in the notes, but some smaller quantity, and such smaller quantity is all that he has any claim to have repaid. In every case, without some express stipulation to the contrary, the quantity of metal actually lent is the quantity which ought to be returned. Those persons, therefore, who without such a stipulation have at any time lent money in a depreciated currency, and are now receiving interest for it in a convertible currency, inasmuch as they are receiving interest on a greater quantity of metal than they advanced in loan, are receiving more than their due. A hundred pounds in the depreciated currency would buy perhaps only £80, in gold, and if the bargain was, that the rate of interest should be five per cent., the real sum now due to them for interest is £4, being five per cent. on the original quantity borrowed.

The course is then clear with regard to bargains entered into under the circumstances described. If on the other hand it was a condition of the contract, or what is the same thing, if the law of the land existing at the time the contract was made, prescribed that, on the happening of a given event, the loan should be repaid in a currency of full metallic value, although originally advanced in a depreciated paper, the same principle of equity which requires the contract to be performed at all, requires that this condition should be strictly fulfilled. It was enacted by the British Legislature in reference to the restriction on cash payments, that such payments should be resumed in six months after the conclusion of peace. In consequence of this, all bargains subsequently made, whether by individuals amongst themselves, or between government and other parties, were entered into with the knowledge, that sooner or later the time would come when paper-money and gold would be again convertible into each other. This formed one of the conditions under which the terms of those contracts were settled.

It is impossible to say what influence the law had on the bargains effected during the depreciation that ensued, but it must have had some; for we can scarcely suppose, that if instead of the enactment in question, a declaration had been issued by government that no such resumption of cash payments must be calculated upon, the contracts made during the war would have been on the same terms as those which were actually agreed to.

The only consideration which can at all

shake the conclusion that this part of the agreement should be respected, is that the law was passed and acted upon in ignorance of its real tendency and consequences. On the principle already admitted, that bargains entered into under unavoidable ignorance of some of the chief consequences attending them, may with propriety be adjusted according to the spirit in which they were made, it may be contended that the contracts in question ought to be revised. But here again we should have insurmountable difficulties analogous to those already described in a former section. To adjust the contracts equitably, we must know exactly how far they were governed by the prospect of a return to a convertible currency, and be able to discover all the parties who have sustained injury, or reaped advantage from the operation of the bank restriction on their pecuniary engagements.

No agency that we could establish would be competent to such a thorough investigation and adjustment: and any partial rectification would only exasperate the evils already inflicted; for while an individual might be called upon to surrender some advantage derived from the changes in the currency, to which he was not equitably entitled, he might receive no compensation for losses which had unjustly accrued to him from the same source.

In contrasting the position of those national creditors who lent money while the paper of the Bank of England retained its full metallic value, and were subsequently compelled to receive their dividends in a depreciated paper, with the position of those creditors who lent their money in depreciated paper, and have for many years had the good fortune to receive their dividends in the restored currency; it must appear to every one, from the preceding observations, that they are by no means in strict antithesis. In the case of the former class of creditors, justice requires, without the shadow of a doubt, that full compensation should be made to them; and the only reason to be urged for withholding it, is the utter impossibility of making such compensation, in the right proportions, and to the proper parties. In the case of the latter class of creditors, on the other hand, it is, to say the least, extremely doubtful whether the nation is paying more than it ought to pay, and whether, if a revision and rectification of contracts were feasible, the slightest deduction could, in equity, be made from their annuities.

Considering the fundholders as a body, it is clear, from the best calculations, that they have profited little from the changes in the currency, owing to the bank restriction. The subject is not free from difficulties, but it is scarcely to be doubted that the balance of loss and gain is too unimportant in itself to merit public attention; or, at all events, too unimportant for the nation to encounter, for the sake of rectifying it, all the evils which would follow the attempt. The great disadvantages sustained, and the great benefits reaped, have not accrued to the nation in its aggregate capacity, nor to the fundholders in theirs, but have fallen to the lot of particular portions, or individual members of those bodies; and as these consequences are not now to be traced to the parties on whom they fell, the whole matter is placed beyond the reach of beneficial interference.

It is essential not to confound these cases in which paper money is no longer exchangeable for the stipulated quantity of gold, with cases in which the whole currency, whether convertible paper or gold, becomes of less value. When the latter event takes place, the lender, as we have shown, is not injured by the circumstance that, although he receives the same quantity of the metal, it has less power in the market: he receives the stipulated quantity, and the bargain is fulfilled. This is the best result within the power of human regulations to effect. Yet these very distinct cases are often confounded. Much declamation is wasted to show the injustice of paying creditors in a time of high prices, when money is lowered in value, no greater amount than that which was borrowed when prices were low; and the injustice done to debtors under contrary circumstances; although these vicissitudes have had no connection with any depreciation of paper.

Apply the rule already laid down, and there can be no longer any confusion or doubt. In the event of a depreciation of paper below coin, the creditor no longer receives the stipulated quantity of gold: in the event of a fall in the value of *coin itself*, the creditor receives precisely the same quantity as before. While one case involves a virtual fraud, the other gives all that the most rigorous justice can require. Every transaction in lending and borrowing, where no particular stipulation has been made, may in fact be brought under one rule, that the sum borrowed and the sum repaid should contain the same quantity of the precious metals; or, in other words, that the quantity of gold received by the lender in repayment of his loan should be exactly equal to the quantity which he lent. To secure this point, and nothing beyond this, should be the aim of all legislation on the subject.

CHAPTER IV.

ON EXPEDIENTS FOR OBTAINING THE ADVANTAGES, AND AVOIDING THE EVILS, ARISING FROM CHANGES IN THE VALUE OF MONEY.

If the causes and effects of variations in the value of money formed merely a curious subject of inquiry, without leading to any practical results, the consideration of them might be abandoned to those individuals who delight in the acquisition of truth for itself, or in the exercise of the intellect in difficult speculations. To any reader, however, who has paid the slightest attention to the matter in hand, it must be apparent, that, by the degree of knowledge which governments and individuals possess of it, a great number of important measures, public and private, must be determined; and that, at all events, if a perfect acquaintance with it should not enable men in power to adopt many beneficial expedients, it may teach them to refrain from acts which would be highly injurious, and into which ignorance would be sure to plunge them. One of the prime advantages of knowledge is to save mankind from doing mischief.

The inquiry then presents itself, how far is it practicable, by any expedients, to secure the advantages and avoid the evils which have been pointed out as arising from fluctuations in the quantity and value of money; and this inquiry may be divided into two separate questions: how far this can be done by the authority of the state, and how far it can be done by private prudence.

Section I.

On Expedients on the part of the Government of a Country for effecting these Objects.

Our former investigations into the effects of an increase in the metallic money of a country, have shown that such an increase is attended with the advantage of stimulating production, or calling forth fresh exertions from industry. If we look more narrowly into the distribution of this advantage, we shall find that it is, in a great measure, an advantage accruing to particular classes of the community, and that part of it arises from a disadvantage inflicted on other classes. The advantage to one party, and the disadvantage to the other, are inseparably interwoven.

Now, it cannot be for a moment maintained to be the legitimate object of any government to increase the prosperity of one portion of the community at the expense of another; or to effect it by the virtual transference of property from one man to his neighbour, without his knowledge or consent. Nothing is more certain, however, than that such a transference is the result of any change in the quantity of currency affecting its value.

If, indeed, it were possible to make compensation to the losing party, or if the general benefit to the community from an increase in the quantity of money were so great, that even the losers were compensated for their particular loss by their share in the common gain, the injustice of the supposed proceeding would be removed. As to direct compensation to the suffering party, it must be seen at once to be impracticable. The impossibility of estimating losses of this kind has already appeared in treating of pecuniary contracts, and we need not waste another sentence upon it.

The second kind or mode of compensation is not, however, an impossible case. In an early stage of the social progress, when a country is embarrassed by a scanty and imperfect medium of interchange, the benefit of acquiring a sufficiency of the precious metals may possibly, in the instance of every individual affected by the change, counterbalance the disadvantage sustained by a rise in the prices of commodities; and on that ground, if no prospect presented itself of what may be termed a spontaneous supply from commercial operations, a government might be justified in taking measures for procuring an adequate quantity of gold and silver. But this would be an extraordinary situation of affairs, and even then the measure would be of doubtful expediency. In ordinary cases, in countries where the precious metals are familiarly used and where industry has long flourished—in such countries, in a word, as are interested in the present inquiry, the probability would be on the other side. The whole advantage arising from an increase would probably be less than the whole of the disadvantage sustained, and, at all events, the benefit would be less to what we have termed the losing party. There would not be that clear, and indubitable prospect of universal advantage, which would justify the production of an inequality of effect on the welfare of different classes of the community.

Besides all this, if no moral obstacles opposed themselves to an attempt on the part of a government to increase the quantity of the precious metals in the country, there would still be the insuperable objection that no forced augmentation could be permanently maintained. If the quantity in the country exceeded that which would flow to it, and be retained in it by the nature of its intercourse with other countries and its relative position in the community of commercial nations, the surplus would eventually disappear in the manner already described in a former chapter, and a ruinous reaction on prices ensue.

Notwithstanding, therefore, the recommendation of Hume that the magistrate should, if possible, keep the money of a country increasing, we may safely conclude that this is not an object which a government can properly propose to itself; and that, if it were, there are no means of attaining it within the power of the supreme authority. To attempt to lessen the quantity of money is, of course, still more out of the question, as it would be an unjust transference of property without the slightest compensation.

Although the production of variations is thus an unfit object for a government to propose to itself, it still remains to be considered whether the prevention of such changes may not be appropriately and successfully attempted. No man could complain of being precluded from gaining by the involuntary loss of another.

A slight attention to the subject, however, will show that, although this might be desirable, it is an impracticable object.

To prevent alterations in the quantity of the precious metals could be accomplished (and that for very brief periods) only by preventing their importation and exportation, or taking care that one should exactly balance the other. All persons of moderate information are aware of the utter inefficiency of any regulations for effecting such purposes. Wherever restrictions on the importation and exportation of gold and silver have been tried, they have uniformly failed. Whenever it is profitable to import and export articles of this kind, it will be done in defiance of the strictest enforcement of the strictest laws. Spain is a notorious instance of the futility of attempts to prevent the efflux of gold and silver.

But if such regulations could be carried into effect, the real object in view would be imperfectly attained, and the very mischief might be produced against which they were intended to guard. It is not the absolute but the relative quantity of metallic money which would require to be preserved. The absolute quantity might be kept stationary by the successful enforcement of restrictions, and yet all the mischiefs of fluctuation produced: for, in order to prevent one class of the community from reaping a benefit at the expense of another, the absolute quantity must be made to vary, and there must be a continual exportation and importation, according as population and industry were on the increase or decrease, as money was economised and enhanced in efficiency by banking and analogous expedients, and as other causes, which we have already adverted to, came into operation. It is needless to say that no exercise of control on the part of government could so proportion the supply to the demand as to prevent variations from these causes.

Even if government had the power and ability to do this, the mischievous effects of fettering foreign commerce would far exceed any possible advantages to be derived from it. By any attempt of the kind a considerable part of the external trade of the country would be destroyed, and its internal productiveness paralized. The unimpeded importation and exportation of the general medial commodity is absolutely essential to the most profitable extensive traffic with other countries.

The business of government is evidently reduced in this case to non-interference. By permitting the freest exportation and importation of the precious metals, it adopts the most effectual means of narrowing the range of variation in the prices of commodities from causes peculiar to those metals. Under such a policy, redundancy and deficiency (if it is possible for them to be corrected), correct themselves.

Without entering into further argument on a point which will scarcely be contested, we may then conclude that, to regulate the quantity of the precious metals, with the view either of obtaining benefits or of guarding against evils, is neither within the legitimate objects nor within the power of government. If government cannot do this, how far can it remedy the evils which it cannot prevent? On turning to the chapter explaining these evils and looking at their nature, we shall see, that in this respect, the authority of the state is equally powerless. It is not within the scope of human ability (if our former reasonings are correct) to adjust the disturbance or inequality occasioned by changes in the currency to the two parties to a pecuniary contract. It can do as little to rectify the profits and losses reciprocally sustained by the owners of money and the owners of other commodities. Any interference with this view could be justified only by such a perfect knowledge of the operation of all the causes in activity as the human faculties can never obtain, joined to such an omnipotence over society as human power can never reach.

We have hitherto been considering the subject under the supposition that the precious metals formed the only instrument of exchange.

In the matter of a paper currency, a government may seem at first sight more powerful and is undoubtedly more powerful for evil, as well as more competent to prevent evil. But if we examine even this case, we shall perceive that the legitimate object of its interference can not be to increase or decrease the quantity of the currency, in order to produce an alteration in prices. Such variations may be the incidental effects of its measures; but, for the reasons already assigned, they ought not to be the purposed ends. In fact, there ought to be little more interference on the part of government with the paper than with the metallic money. Its interference in both cases ought to be pretty nearly of the same character, and analogous in design.

With respect to metallic money, the proper business of the supreme authority is limited to providing that the coin should be uniform, genuine, of convenient sums, and supplied in the quantities demanded in exchangefor bullion. In the case of paper money, the proper objects of government are to provide that it be perfectly secure, and at all times convertible into the coin which it represents; that, as in the case of coin, it should be issued for convenient sums, and that the danger of over issues shouldbe met by adequatepreventive, or remedial checks. When these ends have been secured, which they may effectually be, by a few simple regulations, the business of government in the matter is ended. Whether it attains these objects by a National Bank or in any other way is not material to the purpose. Even if the profits of such a bank as the name implies should belong to the State, mere profit to the public treasury must be kept subordinate to the other objects, and could never be legitimately pursued by attempts at increasing or decreasing the quantity of the currency which would otherwise have been in existence. If a National Bank could not legitimately seek profit by such means, *a fortiori*, no private establishment, however large, ought to be suffered to do it.

Thus, although a government cannot effect much good by the most thorough knowledge of the subject, yet it may prevent the ruinous consequences of over issues, and it may be restrained by such knowledge from doing a great deal of harm by its own acts. It is the ignorant intermeddling of the State with the character and quantity of money which is to be deprecated. Such knowledge will show the thorough dishonesty and consequent impolicy of debasing the currency, either by lessening the quantity of pure metal in a given coin, or by issuing, or by suffering any body to issue, inconvertible promissory notes. No reprobation could be severe enough for any statesman who in the present day should dare to resort to or permit either of these expedients. It would be a dishonest interference with the property and resources of every man in the kingdom. Whatever may be the advantages of an abundance or an increase of money, every person of clear understanding and upright mind must see that they are dust in the balance when weighed against the advantages of maintaining good faith between man and man.

Nor should any statesman, except on the strongest, well-considered grounds, attempt to change the nature or character of an existing paper currency; except, namely, on the grounds that an alteration is required for the purposes of attaining or preserving due security, immediate convertibility, convenient denominations, and the prevention of over issues.

Tried by this test, the recent alteration in the currency of England, by which all promissory notes under five pounds were abolished, can hardly be justified. The security of these notes might have been attained by the simple expedient of throwing open the trade of banking, subseqently adopted: their immediate convertibility into specie already existed, and, with other checks constituted a sufficient prevention of over issues in this description of paper, and their denominations of one and two pounds were highly convenient. The only ground on which the measure of their abolition could be maintained, appears to have been, that while they formed the common retail currency of the kingdom, the whole currency was far more liable to contraction and expansion, than if, as the phrase was, the currency rested on a metallic basis. On this very doubtful proposition, at a peculiarly inappropriate time, an alteration was carried into effect which exasperated the evils under which the industrious classes of the community were already suffering, checked production, threw a great number of workmen and labourers out of employment, ruined many who were before struggling against fixed burdens in a falling market; and, in short, occasioned immediately one of those vicissitudes against which the professed object of its authors was to guard. However some may doubt the advantages of an increase of currency, no one can deny the ruinous effects of a decrease. Even if the doctrine in question had been indubitably correct, to act upon it at a period so peculiarly unpropitious was any thing but sound and enlightened policy.

A great many calamities would have been avoided had governments always been duly impressed with the truth that they are forsaking their proper province when they attempt to augment or diminish the currency of the countries over which they preside: that to make a beneficial augmentation or diminution is wholly beyond their power; and that their interference in the matter can scarcely fail to inflict injury and injustice on the community.

Section II.

On such Expedients on the Part of Private Individuals.

As individuals can produce no effect on the quantity of money in a country, so as to create for themselves an advantage from an alteration in prices, the part of private prudence is confined to securing any benefits which the course of events may spontaneonsly offer, or guarding against evils arising in the same way.

The parties liable to be affected by changes in the value of money cannot, as we have seen, look to government to preserve them from any ill consequences proceeding from vicissitudes in the demand and supply of the precious metals: they can look to the supreme authority only for a forbearance from producing variations, and for the enforcement of the rule that all pecuniary bargains shall be regulated on the principle of quantity. For due protection against any other evils to which they may be exposed by such changes, they must have recourse to their own discretion and foresight.

If the nature of money bargains, and the causes which operate on the value of money, were well understood, every individual would be able to provide in some degree against the principal vicissitudes of this kind by which his prosperity is liable to be affected. So would the state; for in treating this subject, the government of a country, as a partyin pecuniary bargains, or as a purchaser or seller in the general market, must be considerd as an individual or private agent, and its conduct will fall under the same rules as that of the rest.

The chief cases in which inconveniences arise from changes in the value of money originating on the side of the precious metals, appear to be the following, or similar ones.

1. Estates are sometimes left subject to the annual payment of a fixed sum of money out of the rents. In some instances, owing to the great fall in the value of the precious metals subsequently to the discovery of America, or to the debasement of the currency, or to both, such annuities, once of great importance, have become comparatively worthless. More recently the contrary has happened. Estates have been left when money was low, burdened with a rent-charge, which since the enhancement of the currency has absorbed the whole annual returns. Contingencies of this kind might be easily guarded against by making the annuity a certain proportion of the rent, or, better still, a certain quantity of corn, instead of a certain number of pounds sterling. Rents themselves, for property on lease, are obviously subject to the same casualties in proportion to the length of the term, and may be regulated in an analogous manner.

2. Money is borrowed on mortgage of land. If money rise in value at any time subsequently, the rent of the land will fall; but the interest continuing the same as before, becomes exces-

sively burdensome and sometimes ruinous. If money fall, the contrary happens, and the mortgagee suffers. In neither case has the losing party much remedy: nor is it easy to guard against the evil. Lenders of money would not be willing to trouble themselves with stipulations about paying in corn or other commodities. In general, a man who wants to borrow money on his property, without any speedy prospect of being able to repay it, would act wisely to sell the property at once. Numbers of people are ruined by the foolish desire of continuing to be the nominal owners of estates which have really passed out of their hands.

3. Articles and materials are purchased which require time before they can be brought to market and disposed of. If, in the interval, money should rise in value, a loss is sustained in the disposal of them. The seller very often calculates on paying for the goods out of the proceeds of the sale, and if the rise in the value of money has been rapid and important, he may actually receive less than prime cost, and be obliged to make up the deficiency out of his capital. This has been an abundant source of loss and ruin during the last twenty years. No prudence can guard altogether

against contingencies of this nature. In some lines of business it is impracticable to dispense with large stocks of materials or goods, and in a fall of prices, large stocks must be ruinous, but probably a vigilant attention to keep them at a minimum might very materially lessen the risk of loss; and the rapidity with which commodities can now be conveyed from place to place abates, in many cases, the necessity which formally existed of extensive accumulations.

4. Annuities are granted on the payment of certain sums as purchase money. These cases are precisely the same in effect as those we have considered under the head of mortgages. If money should rise, the granter of the annuity sustains a disadvantage; if it fall, the annuitant. Under this head are included National Debts. These generally assume the shape of perpetual annuities, and in the long lapse of time during which they may continue, the vicissitudes in the value of money may be so great as to be of serious importance to both parties—to the annuitant, who receives the annual interest, and to the nation, which has it to pay. It is doubtful whether any expedient could be adopted which would render the benefit on the one side, and the burden on the other, more

stable or uniform. Some other commodity than gold might be selected as the commodity of contract, but whatever it was, it would be subject to important vicissitudes and the ascertainment of its value, or, in the event of a stipulation for mere quantity, the ascertainment of its quality might be troublesome and difficult. The vicissitudes arising from an inconvertible paper currency are not of course here in question, as those may be altogether avoided. Apart from all controversy on the propriety of raising money at all in the way of loan, the system of selling *perpetual* annuities seems fundamentally impolitic, as it commits a nation to all the consequences which may arise during a long and uncertain term of years from vicissitudes in the value of the precious metals. A great part of this objection would be removed by the simple expedient of granting none but terminable annuities; on which plan the evil would at all events have fixed limits.

5. Salaries and pensions are given or granted by individuals or by the State. The liabilities to loss and gain are the same in these instances as in the preceding: but the remedy is at hand, as it is easy to provide, in any such bargain or grant, that the annual amount shall be revised at

stated periods by an equitable estimate of the worth of the service in the currency of the day. In all public endowments of this nature, the power of revision should be expressly retained.

The instances which have been mentioned obviously include the case of taxation. Taxes are imposed for the purpose of satisfying the claims of national creditors, or for the payment of salaries and pensions, or for the purchase of commodities. What the national creditor, the public servant, the pensioner, gain or lose by the changes in the value of money, the nation at large loses or gains. It gains or loses also by the fall or rise of prices, in the same way as private parties, when the government has occasion to become a purchaser in the market. A government, being subject to the same casualties, must, of course, exercise in these matters the same prudence as individuals.

In order to obviate the evils resulting from vicissitudes in the value of the precious metals as commodities of contract, several expedients have been suggested, and, amongst the rest, it has been proposed to govern contracts by a reference to a number of commodities, instead of merely a single one like gold or silver. This project, however, could not be carried into execution without considerable trouble and expense, and the proposed practice would never become general, merely from its complexity. Neither would it reach the extent of the evil. Whatever were the commodities selected, a fixed quantity of them could not preserve a uniform relation to other commodities. The effect of it, also, would be to prevent the lender from participating in any of the advantages arising from increased facility in the production of the articles selected for reference. He would receive back precisely the same quantity of these articles as he had originally lent, although they might be produced with a fifth part of the labour; and, consequently, his command over other articles which had undergone no alteration, and over labour itself, would be diminished. He would be in a much worse condition than he was when the bargain was made, and probably also in a worse condition than if the single commodity, gold, had been the commodity of contract.

On the other hand, if the production of the other articles became more difficult, the borrower would have to sustain the whole disadvantage.

Add to all this, there would be a great field for fraud and dissension in ascertaining the prices of the selected articles. The price of an article of uniform quality—such, for instance, as some of the metals, is easily ascertained; but the prices of grain, of cotton, of timber, of labour, and of such commodities generally, as must necessarily be chosen as the articles of contract on the proposed scheme, are affected by the varying qualities of the substance or service, and frequently by circumstances of locality or accident. An average must therefore be taken, and we all know, from the history of the corn-market, what dishonourable practices are resorted to in order to influence the result so obtained. We may be sure that, in a matter of such extreme importance, as determining the value of the pound sterling, in which a very slight variation would have immense consequences; (that is, determining, in fact, whether a sum lent at 20s. the pound sterling should be repaid at 15s. or 25s., or some other rate, involving a still wider deviation) every engine would be set to work in order to raise or lower the averages, as the parties might feel it to be their interest to elevate or depress them.

The object of such a scheme would be to

enable the lender, as far as practicable, to command with the sum lent, at any time when it might be restored, the same quantity of commodities. This could not be completely accomplished without taking into account all commodities whatever, and as this is evidently impossible, the scheme in question proposes to select the principal ones. But the object itself is, as already intimated, erroneous. The fair and just object, were the legislature omnipotent over circumstances, would be, as we have shown in a former chapter, not to give the lender the command of the same quantity of commodities, but to place lender and borrower in the same relative position, so that one shall not profit at the expense of the other.

This would be effected by protecting both lender and borrower from all loss by alterations originating on the side of the money, and by leaving them to their natural proportions of gain and loss from all alterations originating on the side of commodities.

With the present limited faculties of the human mind, however, such an object is not to be accomplished. The utmost that can be done in regard to pecuniary bargains by legislative interference, is to enforce a strict observance of the rule of returning quantity for quantity. To obviate the consequences of vicissitudes in the value of the medial commodity, must be left to the private prudence of the parties interested, to whom the disadvantages of such vicissitudes would be greatly reduced by their clearly comprehending the liabilities to which they were exposed.

Sufficient has appeared to show the evil of entering into contracts which are to be fulfilled by distant successors, when perhaps the position of affairs will be so completely altered, that a burden may be imposed which was never contemplated by the original contracting parties. It is not in general duly weighed, that great caution is required in attempting to rule the world from the grave, and it is deserving of more consideration than it has received, how far such an attempt ought to be permitted. When a man makes a bargain which an unborn successor is to fulfil, or entails an estate, or leaves a sum of money to be appropriated to certain purposes in a distant age, he is in fact attempting to govern the actions, feelings, pursuits, and destiny of men, whose peculiarities of situation, knowledge, and other attributes, are totally unknown to him. Except under peculiar circumstances, this is certainly a degree of presumption, an attempt at posthumous control, which can scarcely fail to be pernicious, and ought to be resisted. Let men make their contracts and arrangements for periods more consonant with their own little span of existence and limited foresight. If governments borrow money, let them do it on terminable annuities; and in granting pensions and salaries, let them make provision at the outset for a periodical revision of the amount. It is to be hoped, that the world will not again witness the headlong folly of fixing perpetual annuities on a long and indefinite series of generations with a hand as lavish and careless as if no lasting consequences were to ensue, and for the insane purpose of arming man against his brother.

POSTSCRIPT.

ON JOINT-STOCK BANKS.

ON JOINT-STOCK BANKS.

AMIDST the discordant opinions and multitudinous discussions on the subject of Joint-Stock Banks, it is not easy to discern the real merits of the questions at issue.

We shall hardly see our way clearly unless we set out from some plain and acknowledged principles, and steadily pursue them to their consequences. If this could be accomplished, the controversy (amongst men of sense, at least) would soon be at an end.

It is obvious that the great point to be determined is, how far the State can beneficially interfere in the business of Banking.

The fundamental principle in the general policy of interference is, that the State should not interpose where private interest and exertions are adequate to accomplish any affair without it. The supreme authority should limit itself to those matters to which private efforts are incompetent. It is now universally admitted that amongst the things which are thus out of the province of government, the various trades in which men engage are to be classed. We have arrived at a degree of knowledge sufficient at least to teach us that the business of production and interchange requires no aid from the law; that a man may be left to grow wheat and barley, to manufacture cloth, to deal in hats and hosiery, as he pleases, and to sell them at what prices he can obtain, without the necessity of the governing power watching his steps to prevent him from sacrificing his interest, or from reaping extraordinary profits in consequence of the supineness of his fellow men.

The only purpose for which the State can interfere in these matters with advantage, is to uphold good faith and protect him and those with whom he deals from mutual injury. For this end, payments, contracts, and promises are enforced. There are certain prescribed modes in which he can extort the money that is wrongfully withheld, and compel the fulfilment of the bargain which any one endeavours to evade. But there are no laws to save him from imprudence, none prescribing what capital he shall have, or what proportion it shall bear to the amount of business transacted, or what profits he shall make; none limiting the number of his offices and warehouses and factories, or fixing the towns and seaports where they shall be situated. Regulations of this sort would be manifestly ill-judged, burdensome, and unnecessary. Such points are to be determined by the vigilance of the party concerned—requiring minute knowledge of a thousand particulars which will be learned by nobody but him who has an interest in knowing them; and, although they are not invariably determined with perfect wisdom, are determined more wisely on this plan than they could be on any other.

There is, however, still one trade in which governments distrust the sagacity of self-interest, and deem that the vigilance and discretion of persons at a distance, and imperfectly acquainted with the circumstances of a contract, will be superior to those of the parties immediately concerned. Dealing in money is imagined to have something so peculiar about it, that Legislators cannot forego the fond fancy of a necessity for their interposition. Allowing a merchant to load other commodities with a profit of fifty per cent. for six months, if he can find any body to take them at that rate, they will not permit him to charge a profit of six per cent. for twelve months, should his commodity be gold, although thousands may be willing to pay it.

In imposing this restriction, the law, however, is now admitted by all who have studied the subject to do mischief. The restraint is justly regarded as the lingering relic of past ignorance, preserved by prejudice and sinister policy. No reason can be adduced why the trade in money should not be left as free as any other trade. The law itself does not aspire to direct a man from whom he shall borrow or how much he shall lend. It pretends only to limit him in the remuneration to be received for the use of his money, and cannot really effect what it aims to accomplish.

Omitting all reference to taxation or police regulations, the effects of which on trade ought to be merely incidental; there appear to be only two cases of importance in which the State can properly interfere with any trade or branch of production, for any other purpose than doing justice between man and man; or, at least, only two cases that can affect the question before us.

1. One of these is when an undertaking is of so peculiar a nature, that it cannot be entered upon without special powers and privi-

leges. Canals and railroads, in the execution of which it becomes needful to trespass on the property of reluctant parties, may be cited as instances. In sanctioning such undertakings, the State is obliged to grant a sort of monopoly, and having withdrawn the check of competition, it may with propriety interfere in various ways, according to the circumstances of each case; sometimes prescribing the maximum of profit—sometimes the rate of charge—and sometimes particular modes of proceeding.

2. The other case is where the prosecution of individual interests would interfere with branches of industry, or departments of exertion, which the State itself has thought proper to assume. Thus, in our country, the Government has undertaken the conveyance of letters, and the coinage of money; and in order to facilitate or insure the accomplishment of its purposes, private persons may be very properly restrained from any proceedings which would tend to defeat them.

Now, it appears, that in pursuing the trade of a dealer in money, the transactions of an individual could come only within the latter reason for restraint. By issuing Bills or Notes, which he must unavoidably do, in some shape or other, he might be neutralizing the proceedings of the Mint. It is now beyond dispute that coin and notes of the same denomination will not long circulate together. Individuals, therefore, by issuing such notes, might drive away the specie which the State had provided, and intended to form part of the currency. If, then, Government has determined, for any reason, to have a metallic currency, consisting of certain coins, here would be a plain ground for restricting the dealer in money from such issues of paper as would defeat the design; but that object having been secured, there would be no reason left for extending the prohibition to the issue of notes of higher nominations.

On the supposition, indeed, that he enjoyed the sole privilege of issuing notes in a given district, his case would fall under the first head; and as he would have a monopoly from Government, the consequences of that monopoly might be properly limited by special checks on his issues. But if he had no monopoly of the sort, but was exposed to the operation of free competition, he could not be reasonably subjected to restraint, in regard to the bills or notes which he might find it convenient to issue, except for the purpose already mentioned of maintaining the circulation of coin. —This is, in fact, the precise situation in which an individual is placed in this country. He may deal in money as he likes; he may draw bills; he may issue promissory notes, above a certain sum; he may lend at pleasure and borrow as he can, with the single restriction on the rate of interest. Alive to his own advantage, he will engage in these transactions so far as he finds them profitable: subject to competition from rivals pursuing the same course, and depending in every step on the voluntary co-operation of others, he will find the transactions which he can carry on to a profit, whether borrowing or lending, or issuing notes, rigorously limited by the interests of those with whom he has to do.

Thus, apart from the interference of the State, arises that combination of incitements and checks which spontaneously insures that, in the long run, the business of dealing in money, like all other trades, shall be carried to an adequate, but not to an excessive extent.

What is true policy in regard to an individual carrying on a trade, is true policy when individuals combine in partnership. When they unite in this way, there can be no more ground for interference with them as traders than when they were separate. The union may create a necessity for additional regulation to secure the performance of engagements between the partners themselves, and between them and the public, or otherwise to prevent wrong, but it can occasion no call for interference in the management of their trade. The proper and profitable management of it will be secured in as high a degree as is practicable by the same play of interests which we see so effectual in the case of individual traders.

The *number* of partners can obviously make no difference in the matter, whether two or two thousand. In the latter case, a few still further laws might be necessary than in the former, for the sake of convenience in adjusting any points of right and wrong which might arise between the partners themselves, and between the partnership and other persons: but a multiplicity of partners would still form no ground for interfering in the management of the business. Nor could there be any just or adequate reason for limiting the number of partners by law. Private interest would determine the beneficial number with a precision unattainable by legislative regulations.

Two would not unite unless they found it their interest to do so; and if a thousand found it their interest to unite, no reason can be shown why they should be prevented.

This is admitted with regard to other trades —but again it has been fancied that the trade in money may be shackled and hampered to the advantage of the community; and our legislators, in the plenitude of their wisdom, formerly restricted the number of partners in the business of banking to six.

Not only was there no rational end to be answered by this, but mischief, deep and extensive, was sure to ensue. If there is any trade in the world in which a large number of partners is peculiarly desirable, or in which, at least, the number should not be arbitrarily abridged, it is the very one selected for this limitation; because it is the trade of all others in which the undoubted stability of the companies engaged in it is of the highest importance. The consequence of the restriction in England may be seen in the columns of the Gazette.

It was under the impression of similar views to these that the British government withdrew the restriction in question, and threw open the banking trade to large as well as small partnerships. In doing so it very wisely abstained from attempting to regulate such points as the interest of the parties concerned would spontaneously provide for. The provisions of the law were almost exclusively directed to facilitate the formation of large partnerships, and to remove obstacles to the ready assertion of right and redress of wrong arising out of circumstances peculiar to them. As the customary modes of joining and retiring from a partnership would have been troublesome and expensive where a considerable number were united, the law prescribed easier modes of accomplishing these acts. And inasmuch as, from the number of partners, there would be difficulties in suits at law, conducted in the same way as suits relating to ordinary partnerships, the legislature obviated these difficulties by introducing the appointment of public officers to sue and be sued for the whole company. Further, as the list of partners would be continually liable to variation, it became requisite to provide that the creditors of the bank should have it in their power to ascertain at any time the actual shareholders; and the law very properly directs how this is to be effected.

All these are regulations springing out of the manifest differences between large and small trading companies; they were designed to obviate the peculiar inconveniences of the latter in points of formation and legal redress; they conferred no exclusive privileges, and were not at all intended to interfere with the management of the business. The same checks were left to operate on this, as operate on the affairs of individuals. The responsibility of partners was wisely retained in all its force. No attempt was made to prescribe points of conduct which there were adequate motives to regulate.

On the whole, the Act appears to have been judiciously framed, and to have limited the interposition of authority to its proper objects. Its principal feature, in fact, consisted in withdrawing an interference which ought never to have had place, and making a few provisions to regulate the new state of affairs which might be expected to arise in consequence of that withdrawal.

If the Legislature had simply taken off the restriction formerly existing in regard to the number of partners, it would have effected a great improvement in the character of Banks; but, by introducing also a few regulations, founded on the peculiar characteristics of large companies, it secured still more effectually the formation of solid establishments, adequate to the business of the country.

All this, it may be said, is very plausible "in theory," but has the Act answered its purpose? Has the system of Banking called into existence and fostered by it proved beneficial to the country? Have not evils ensued, requiring the interposition of the legislature? To the first question we unhesitatingly answer in the affirmative. The law on the subject has provided the country with a considerable number of sound establishments. Up to the present moment, although pecuniary difficulties in the commercial world have reached an almost unparalleled height, none of the depositors of money in Joint-Stock Banks, and none of the holders of their notes, have lost a shilling.

To the second question we reply;—It is true that there has been mismanagement—it is true that there has been embarrassment in some of these establishments; but all this equally occurs in private business, and was what every man of sense expected at the outset of a new system, or rather an attempt to reform an old one. As in private concerns, too, so in Joint-Stock associations, such evils unfailingly lead to their own rectification.

To prove what is here asserted, let us examine in detail the principal charges brought against the system itself, as well as against the mode in which it has been carried into effect, and which are put forth as grounds for the interference of the legislature.

1. It is in the first place alleged that the law has led to the undue, and therefore mischievous, multiplication of Banking Companies.

2. It is further alleged, that there has been a great deal of mismanagement in conducting the affairs of these companies.

3. It is more especially charged against them that they have unduly swelled the currency of the country, by a great over issue of their notes.

1. As to the first charge, it may be admitted as probable that too great a number of banking companies have been formed, and too many banking offices, principal and subordinate, opened: but to complain of this, is to complain of the inevitable movements of the mechanism of society. If any one inquire how it is that any town is supplied in such nice adjustment with the number of drapers, tailors, hatters, and saddlers, which its wealth and population require, varying as these vary, he will find that this is not done by the wisdom of government, but is the result of certain tentative steps

taken by private individuals, who are induced to set up in these several branches of business by the hope of gaining a livelihood, or bettering their condition. If they find room enough amongst their competitors, they do well; if they find the ground preoccupied, they attempt perhaps to gain custom by underselling their neighbours; the latter are forced to resort in self-defence to the same means; a reduction of profit ensues; the trade becomes a losing one from being overdone, till the superfluous traders are thrown out, and remove from the town, or appear in the gazette. So it has been, and will be, with banking companies. The same tentative steps have been taken with the same hopes of success; and by the same process—the disappointment of those hopes—will the redundancy, if it really exist, be corrected. The incitements and checks are the same in one case as in the other. No wisdom, short of omniscience, could so well proportion the number and extent of these establishments to the wants of the community, as those principles of human nature which spontaneously work out the result. Admitting, then, for argument's sake, the alleged evil to its utmost extent, we cannot admit that it furnishes any ground for legislative interposition—

because the same evil occurs in every trade—because there are always principles in operation adequate to correct it—and because needless interference is not only useless but mischievous.

2. It may be also allowed that there have been in some of these Companies very striking instances of mismanagement and overtrading; but no instances surely more striking than we witness in other branches of business. It was just what was to be expected from the opening of a new department of commerce, or rather of one from which the people had been shut out, and the nature of which they did not sufficiently understand. Besides, in 1835 and 1836, an inordinate spirit of speculation seems to have spread over the country, and a passion for Joint-Stock Companies of all sorts set prudence and reason aside. This mania, although it manifested itself in the multiplication of banking companies, and the manner in which they were conducted, could not obviously be owing to them. It had a much deeper source, and this was only one of the forms in which it appeared.

Thus, two different causes were in operation at the same time, to swell the amount of business transacted by the Banks. In the first place, some of these establishments being newly formed, deficient in experience, and having a business to acquire in the face of rival companies, were led to push their transactions in the spirit of competition or avidity, or from ignorance of consequences, beyond safe and proper limits. In the second place, they were affected by the general spirit of speculation and overtrading which prevailed in the community, and would have been almost forced into overtrading themselves, or at least into a large extension of business, had they not already had a predisposition to pursue that course.

In all this, however, there is nothing but what is temporary, nothing which will not correct itself, nothing peculiar to banks or banking companies, large or small. Other commercial establishments are constantly exhibiting the same phenomena. Open in any direction a new prospect of gain, or let an increase of demand for any important commodities arise, and you will soon see the same sort of rivalry, the same undue extension of business, and the same dereliction of the strict line of prudence. Looking at the worst instance that has occurred of mismanagement in large banking companies, the instance in which a Joint-Stock Bank was under the necessity of applying to the Bank of England for assistance to a very large amount—we may point to parallel cases in the large mercantile houses of London and Liverpool. These houses have evidently pushed their business far beyond the limits of discretion, have exposed themselves to the chance of accidents beyond their own control, and have been saved from ruin like the banking company alluded to, by an arm on whose aid they had no right to calculate.

That such houses should be led into the error of overtrading, is no doubt greatly to be lamented; the mischief they may produce by it, is scarcely to be conceived; and the advantage of preventing it would of course be commensurate. But in such cases, who ever dreams of legislative interposition? of limiting their sphere of exertion? of enacting that they shall do business only in a certain ratio to their actual capital? of prescribing how many warehouses they shall establish, how many ships they shall charter, how many bills of exchange they shall draw, and what amount of drafts they shall honour? When the markets have been inundated with raw materials or goods, has Parliament interfered to prevent subsequent importations? When South America was opened to British enterprise, and the eagerness of speculation madly shipped cargo after cargo without bounds or discrimination; when coffin furniture was exported to nations who buried their dead in winding-sheets, and skates to countries ignorant of ice; was an Act passed, or even dreamed of, to restrain the folly?

The case of Banking Companies is just the same as that of mercantile companies, or individual merchants. No reasons exist, why the former should be placed under supervision and restrictions from which the latter are exempt. All the reasons on which the latter are exempt apply to the former. Both are subject to that eagerness after extending a profitable business which, salutary as it is on the whole, is so apt to outstrip discretion; both are alive to the contingency of loss, and interested in listening to the voice of experience; while they are also alike in being more intimately acquainted than any other party can be with the thousand considerations on which the prudence or imprudence of any of their steps depends. And, lastly, the errors of both can be corrected by nothing but ampler experience, sounder views, and superior knowledge—acquisitions not to be forced upon them by Acts of Parliament.

And, after all, what are the evils hitherto produced by Joint-Stock Banks, and who are the sufferers? The holders of notes and the depositors, or, in other words, those persons who have trusted the banks? No. Who then? The partners themselves. If there has been any loss, it has evidently fallen in the right place, on the proper parties. With views of profit, they have become partners in establishments not adapted to realize it, or they have neglected to exercise that control and vigilance over the management, without which the desired result could not be attained. They have made erroneous calculations, or trusted the issue to chance, or confided where confidence was not due, and they have no right to complain of any body in the world but those individuals who may have deceived them. If they had become partners in any mercantile concern, and been equally supine or misjudging, they would probably have encountered a similar disaster. Men who grasp at profit must run the risk of loss.

Thus, the mismanagement and over trading of Joint Stock Banks, even if the charges could be substantiated more generally than they can be, afford no more ground for interference than similar faults in other commercial establishments. This conclusion, indeed, is, I believe, not disputed in regard to those banking companies who are content to trade in gold and Bank of England paper, and do not issue notes of their own. "Mismanage and overtrade as you like," say these objectors, "so long as you refrain from circulating your promissory notes; but if you choose to deluge the country with your paper, it is necessary that you should be placed under the salutary control of the state." This brings us to the consideration of charge the third.

3. The allegation that the Joint-Stock Banks have unduly and mischievously swelled the currency of the country by over issues of their own paper, is, in fact, the grand charge of all. Even the friends of these establishments shake their heads at so grave a fault.

This point, nevertheless, has been much misconceived and misrepresented. It is surprising, indeed, to see how little the real state of the case is understood. The generality of writers on the subject appear to fall into one common mistake—the mistake of conceiving that the Bank of England and the country banks are analogous in their character as banks of issue, and possess a similar control over the currency. A close examination, nevertheless, will show that there is scarcely a point of resemblance between them. As banks of issue, they are in a totally different situation. While the Bank of England has a power of issue, not limited by the existence of rival establishments possessed of equal privileges, and without any check but the necessity of paying her notes in gold when demanded—a check which may be disregarded, as every body is aware, for a long period—the country banks, rivals to each other, act under circumstances which immediately and effectually limit the amount of their circulation. It is scarcely possible, indeed, that there should be a more complete system of checks on the issues of country Banks than that which actually exists, and which either prevents over issues or almost instantly represses them.

In comparing the two parties in question, there can be no doubt that they are alike in one respect: both the Bank of England and the Country Banks are equally liable to pay their notes in specie: for the recent alteration in the law, which gives the latter the option of paying them in Bank of England paper, amounts to no more than a permission to pay the gold in London instead of paying it on the spot. Both the Bank of England and the Country Banks have, therefore, to keep a reserve of money to meet the Notes which may be brought in for payment. The only difference is that the latter may keep it either in gold, or in paper which has cost them gold. Here the similarity in the position of the two parties compared ends.

While the Bank of England makes her advances on commercial bills and her investments in public securities entirely by means of her own notes, Country Banks are under the necessity of making the principal part of their advances in gold or Bank of England paper; that is to say (for to them it is the same thing), in solid property. For every five pound note which they issue on commercial bills, or credit accounts, they must probably advance ten, fifteen, or twenty pounds in gold, or other real capital;* and it is plain that they can become possessed of no public securities by means of their own

* Of course, Country Banks vary very much in this respect. The author is acquainted with one banking establishment, whose advances to its customers are five or six times greater than the amount of its circulation; and with another where they are only about three times greater.

paper, but must pay down every shilling of the purchase money in specie.

That this is a true representation every one must see, even if personally unacquainted with the subject, when he learns the mode in which Country Banks make their advances. In the first place, they are obliged to furnish to their customers, along with their notes, a certain quantity of gold for those transactions, such as retail purchases or the payment of wages, which although separately small, are great in the aggregate. What proportion of gold may be required to accompany the paper, must depend on the nature of the occupations carried on in the district.* If a bank should attempt to force more than the proper proportion of notes on its customers, the paper would be returned upon it, probably the same day, for specie or London notes. But the main point to be attended to is, that a considerable part of the advances which Country Banks make to their customers are made in London, and in these their own notes are of course en-

* Mr. Beckett, of Leeds, stated before the Committee of 1832, that his bank issued to the manufacturers for wages, two thirds or three quarters in gold, and the rest in its own notes. —Minutes, page 95.

tirely unavailing. A merchant or manufacturer has a remittance to send to some other town, or he has an acceptance to provide for in the metropolis, or he has occasion for a letter of credit on some other Bank—transactions which all terminate in payments in London, without the intervention of a single note of the Bank which furnishes the required amount. In some Banks the proportion of receipts and payments in London to their other business is very large.

In these two circumstances, which render the issues of their own paper a subordinate part of their advances, there would be a sufficient preventive check on the over issue of country Bank Notes, were there no external and repressive checks. But if, in misconception of their real interests, any of these Banks should attempt to extend their circulation, and should succeed by some means or other in getting afloat a greater amount of their notes than would be issued without any direct effort in the regular course of their business; the external and repressive checks would instantly come into operation. Should they have forced out a greater proportion of paper to specie than the nature of the business carried on in the neighbourhood can do with, the surplus notes are instantly sent in for gold. Should they have compelled or induced their customers to take out notes for large payments, which must after all be finally made in London, the paper in a few days finds its way back to the Bank that has had the folly to issue it, probably through the weekly exchanges which are established with its neighbours in the same trade, and the amount has to be liquidated by a draft on London, to the loss of the issuer.

Hence, when a country bank agrees to make any advances to a customer, it usually imposes no restriction as to the sort of money he shall draw out. It would be indeed not only useless to do so, but against the real interest of the Bank, which is to facilitate his transactions. He receives local notes, or Bank of England paper, or gold on the spot, or a draft on London, just according to his own convenience. If he is in the practice of using local paper at all, he is of course expected to use that of the Bank which grants him the loan; but as he can have no obvious interest to do otherwise, the matter is commonly left to his own discretion.

Another circumstance is constantly instrumental in returning their notes on Country Banks,—their practice of allowing interest to their customers on all sums paid in. Hence arises an alacrity in sending in superfluous cash of all kinds, never witnessed by those Banks of Deposit, where interest accounts are not customary.

From this representation, every one must see that the extension of their issues can never really be the primary object of provincial banks. Their principal business does not consist, like that of the Bank of England, in lending their own notes, but in lending real capital, belonging either to themselves or their depositors; and so long as their own paper bears so small a proportion to their loans, their chief concern must be to make advances to their customers safely and profitably, with little or no reference to the effect which such advances may produce on their circulation.

Every one must also see that the absolute amount of notes which they can keep out, besides forming so inconsiderable a proportion of their advances, is a matter over which they have very little direct control, and they have none whatever over the ratio which their notes bear to their whole payments. It may be usually presumed that the amount which any Bank can keep out will correspond to the extent of its business, and, therefore, by doing all the good business offered to it so far as its resources will permit, it will probably extend its circulation. But this is an incidental effect—a collateral consequence, which may or may not take place, and which is seldom adverted to in determining whether a loan shall be granted or refused. I am not aware of any mode of increasing their circulation which can be legitimately resorted to by Country Bankers with that single end in view, and certainly none can be adopted which would have the effect of swelling the currency.

Some Country Banks have indeed been known to make it an object to circulate their notes as extensively as possible, by having recourse to means not of the most creditable kind, such as employing agents in various parts of the country to exchange their own notes for those of other banks at fairs and markets, and in public-houses. A Bank which betakes itself to such expedients always suffers in reputation, and seldom reaps any benefit from them, even in a pecuniary point of view. Should it, however, be successful in keeping afloat a larger amount of paper, this additional quantity is obviously not to be regarded as so much added to the circulation, but is in fact kept out by displacing the notes of other banks. The result is not an enlargement of the mass, but a change in the component parts.

These considerations are surely sufficient to prove that there are abundant checks already existing on the issues of Country Banks, and that legislative interference is perfectly superfluous—a needless attempt to do what is already accomplished.

Here again, an objector may say, "This is all very plausible, but nevertheless, look to the facts. Within two years, from the summer of 1834 to 1835, there has been an increase in the country circulation of upwards of two millions." But what does this prove? an over-issue? An answer may be fairly returned in the negative. The fact itself really proves nothing: Who shall say what is the precise amount of provincial paper requisite in any given state of trade? And if any person had sagacity enough to discover this point, how shall he be able to tell the alteration proper to be made in that amount when the state of trade has undergone a change.

When the business of the country is prosperous, the demand for goods enhanced, industry quickened, and the transactions of the community multiplied, more money will be required than in the opposite condition, and a larger amount of provincial notes will be issued and retained in circulation. A Bank has, of course, a certain number of customers such as merchants, manufacturers, farmers, and shopkeepers, who require and keep in circulation a certain number of notes, bearing some proportion to their trading transactions: when their business decreases, they require fewer notes; when it increases, they require more. In the instance of an individual Bank, an augmentation of its paper may be owing either to an increase of its business at the expense of other Banks, or to an absolute increase in the trade of the country. When the former happens, there is no addition to the currency; when the latter, the addition which is made is made because it is needed.

With respect to the expansion which appears from the returns to have taken place in the circulation of the country banks, including private and Joint-Stock Banks, it is probable that part of it was owing to the substitution of their paper for that of the Bank of England in places where provincial notes had not before circulated, (as Lancashire, for example,) part of it to an augmentation of the legitimate trade of the country, especially in the manufacturing districts, and part of it to general overtrading. Under such circumstances, if not a single

Country or Bank of England note had been in circulation (to suppose an extreme case), an expansion of the means of interchange must have ensued, either by bills of various kinds, checks, transfers, and other expedients, or by the importation of more bullion, or, as is most probable, by both. An attempt to stop this process would be as futile as an attempt to prevent the expansion of iron when heated.

We shall be prepared, by the foregoing review of the proceedings of Country Banks, to appreciate the injunction of the Parliamentary Committee of 1836, "that those who assume the responsibility of issuing notes payable on demand, should feel it their pressing duty to examine the state of the Exchanges and the proceedings of the Bank of England in reference to its issues, and thus guard against the dangerous error of an imprudent extension either of credit or of circulation, when an opposite course is rendered necessary."

The meaning of this is evidently that the Joint-Stock Banks should govern themselves, not by a knowledge of the business of their several districts and of their own resources, (which would seem to be the best guard against imprudence of any kind,) but by the state of the exchanges and the proceedings of the

Bank of England; with the express view of producing a general effect on the circulation of the country.

Not to insist on the difficulty of extracting from the two data here recommended for simultaneous examination, any harmonious result, it may be observed, in the first place, that this is one of those injunctions, which being addressed to a number of parties standing in the position of rivals to each other, and proposing to them a public object attainable only by their general concurrence in doing what it is their individual interest to neglect, are in their own nature perfectly null. It is like a recommendation to the holders of wheat to charge a low price for their commodity, lest they raise it so high as to admit foreign grain—a recommendation which it might be advantageous to follow, if all would combine, but which it is their interest to neglect, because no such combination can take place. Under these circumstances, the best thing for each of them to do is to obtain the highest price he can. It would be foolish for him individually to act on the general view of depressing prices—of keeping down what it was the interest of each to raise. Banks enjoying no monopoly are in the same position.

The only proper principle on which any Bank, subject to the competition of rivals possessing the same powers as itself, can conduct its proceedings, is a very simple one and common to every trade. It is to do as much safe and profitable business as its resources will allow, and no more. All that it has immediately to look to when any transaction is offered to it, are the considerations whether the transaction will be safe and profitable, and whether the funds of the establishment are adequate to it. If these points are satisfactorily made out, there could be no more reason in the Bank declining the business thus offered to it, from an apprehension that credit and circulation might be unduly extended through the country, than in a draper refusing to sell a piece of cloth to a ready-money customer, from a fear that society might fall into the unlucky predicament of being overdressed. If, attempting to act on the recommendation of the committee, it should wave legitimate business because the exchanges were unfavourable, or the Bank of England appeared to be contracting her issues, (events by no means always contemporaneous) the consequence would be, that the rejected business would go to some other Bank. It would be an instance of self sacrifice, without the possibility of effecting the desired result or accomplishing any public end.

If a Bank looks at all at the state of the exchanges and the proceedings of the Bank of England, as it may very properly do, it will be only for the purpose of considering them in their probable effects on commercial affairs, on the money market, and thence on its own resources. But there are circumstances in which it might with the utmost prudence disregard these prognostications. While the exchanges were unfavorable, and the chartered Bank was contracting its issues, it might happen that the trade in the district where the Country Bank was situated was flourishing, its own resources ample, and safe and profitable banking business increasing. On no sound principle could it, under these circumstances, forego the opportunity of employing its capital to advantage.

So far with regard to the "imprudent extension of credit" spoken of by the committee. On the other dangerous error of which the Joint-Stock Banks are warned, "the imprudent extension of their circulation," it is scarcely necessary to dwell, after having already shown that the issues of their own notes by these establishments are only incidental to their main business of lending real capital, and are subject to effectual checks, which relieve the banker from the necessity of attending to the amount.

Suppose, however, that a Country Bank in compliance with the advice given, attempted to diminish its circulation as distinct from its credits, when it observed an unfavourable state of the exchanges, or an efflux of gold from the coffers of the Bank of England. We have already seen that it might prudently act in opposition to this advice with regard to its credits or advances; but nevertheless it might be willing to follow the counsel, so far at least as to reduce its circulation. Suppose, then, it attempts to effect the reduction without reference to the advances; how shall it proceed in the matter? It cannot achieve the object by selling its public securities in London, for that would produce only Bank of England paper; and could not withdraw a single note of its own from circulation. It cannot reduce its credits, for by the hypothesis it is judicious to increase them.

The only possible means to which it could have recourse would be to supply its customers with gold and Bank of England paper, instead of its own notes, as heretofore. Such a proceeding, however, would be quite ineffectual towards the object contemplated in the recommendation of the committee—the reduction of the country circulation. The sole effect would be, that neighbouring banks would get hold of the specie or London paper, and substitute their own notes in its stead. Here again the self-denying Bank would be merely playing into the hands of others, without a step of advance to the proposed end.

We will suppose, nevertheless, that all the Country Banks, instead of acting on their separate interests, unite in following the Parliamentary recommendation, from a speculative dread of a redundant currency, or a chivalrous resolution to turn the Exchanges; it is very much to be questioned, whether an intentional contraction of their issues, in reference to the state of the Bank of England, would be proper and desirable. That establishment professes to let the public act on the amount of her circulation, by bringing in gold for paper, or paper for gold, and to be herself passive in the matter.* From this, one would think it to be

* See Mr. Horsley Palmer's evidence before the Committee of 1832: Report, p. 14, et seq.

the natural conclusion, that the Country banks should pursue the same course; and we have seen that this is in fact the case,—they cannot indeed help doing it. But the Parliamentary advice would have them to be by no means content with this action of the public on their circulation and their gold; but to regulate their circulation by the demands made—not on themselves, but on the Bank of England. Thus, Bank A. in the country, is to contract its issues when no call is made upon it to do so by the holders of its notes, or the state of its business, merely because Bank B., in London, is sustaining a demand for specie.

Let us see what would be the effect of this double contraction—first, from necessity, and next from (I presume) what philosophers have named, sympathetic imitation. Assuming Bank of England paper to be in excess two millions, the consequence is that this amount is brought to the Bank to be exchanged for specie, and the excess is at an end; the required effect is produced;—the error of an over-issue is rectified. But if Country Banks, catching the infection, or taking the alarm at second hand, as prescribed by the committee, attempted to contract their issues also, merely on the ground of an efflux of gold from the coffers of the chartered Bank, while the state of their own business prescribed a contrary course, and should unhappily succeed in the attempt to draw in two millions of their own paper, (as to the degree of contraction they would be completely at sea without chart or compass) there would be a reduction in the currency to the extent of four millions—that is to say, double the desired effect. The result would be mischievous.

It is not difficult to discern that, if the course of proceeding thus recommended were harmless, still it would be unnecessary. A contraction of the metropolitan currency is not wholly sustained by the district in which it circulates without a rival, but is diffused throughout the country, ultimately, if not immediately. The comparative scarcity of money and the rise in the rate of interest draw a greater number of payments to London. A larger amount of gold and Bank of England paper is sent from the country to London, and a smaller quantity from London to the country.* Country Bankers consequently find their resources diminished; their notes are brought in for drafts on London, or deposits are drawn out in Bank of England paper to send thither, and their issues are thus

* In a panic this is partially counteracted.

gradually contracted without any direct effort of their own with that view. Hence, instead of two millions being abstracted from the country circulation, in consequence of a contraction to the same amount in the metropolis, making together a diminution of four millions, the probability is, that if the matter were allowed to regulate itself and no alarm excited, one half, or some other considerable portion of the original decrease, would be borne by the country, and the other half (or the residue, whatever it was) by the metropolitan circulation. That a reduction in the amount of Bank of England paper operates in this way will scarcely be denied. It must be recollected, however, both that the result is not contemporaneous with the reduction, but requires time to bring it about, and that in the interval it may be counteracted, and even overcome, by opposite circumstances. The tendency, nevertheless, of a contraction in the issues of the Chartered Bank is always to draw money from the country to the metropolis. That this must be so, every one who is not yet convinced of it will probably perceive, when he considers that a Country Bank is a constant dealer in gold and Bank of England paper, partly at its own banking-house and partly in London, undertaking to receive and pay these commodities at either station; and whenever they become of higher value in London, it is there that the Country Bank will have to provide them in greater comparative abundance.

If any validity belongs to the preceding arguments, it will appear manifest to every reader, that the interference of the legislature with the management of Joint-stock Banks is wholly uncalled for and cannot fail to be mischievous. There are the same propensities of human nature at work to regulate the trade in money which regulate the trade in hardware or calico; and in regard to the issuing of promissory notes, which has been treated as a sort of usurpation of the functions of government, constituting a necessity and warrant for interposition, it is in truth a natural growth of commerce, not to be suppressed by any thing but despotic violence, but necessarily kept within due bounds, where there is free scope for competition, by the operation of the very principles to which it owes its rise.

It will be hereafter thought a singular instance of the propensity to meddle which distinguishes legislative bodies, that a parliamentary inquiry should be instituted into the manage-

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ment of trading associations, in which all the usual motives are at work that incite and govern other parties engaged in business; associations to which no peculiar privileges have been granted, and which, consequently, are exposed to the salutary action of competition; while other partnerships embarked in the same trade, placed in precisely the same circumstances, and differing only in the number of the partners associated, are exempt from scrutiny; and, above all, while the greatest establishment in the country, the "chartered libertine," enjoying a monopoly which places her above all rivalry, and gives her a power of affecting the property of the whole community, is protected from the parliamentary *question*, and even in the person of one of her officers seated in the inquisitor's chair.

The inquiry, nevertheless, will not be without its use; it will be the means of bringing together a great deal of valuable information, otherwise difficult to reach, and will throw light on the true principles of Banking, to the instruction of many parties engaged in the trade; and if parliament were an institution designed for the especial purpose of gathering statistical facts and illustrating economical principles for the guidance of commercial associations, it could not perhaps have employed a portion of its time more suitably than in the examination of the directors and managers of Banks: but if, on the other hand, it is to be regarded as an institution designed for making good laws in those matters which private interests are incompetent to regulate, and if it has already more to do in this way than it can properly accomplish, then the attention which it has bestowed on the details of a particular trade, always, like all trades, best "let alone," can be considered in no other light than as a waste of legislative power which ought to have been devoted to objects within its legitimate province.

ON METROPOLITAN BANKS.

The management of the Bank of England, as exhibited in the accounts and statements of the directors, and in its whole history for the last fifty years, furnishes a remarkable illustration of the difficulties which follow a departure from the principle of leaving trade to the free operation of competition.

Had no monopoly been granted to a single bank, a number of such establishments would doubtless have arisen in London, abounding in capital, with managers of ability sharpened by the competition of rivals, and adapted to all the emergencies which could call for its exercise. No redundant circulation would have ever made its appearance, or, if it had, the instant repression which it was destined to encounter, would have saved the community from the repetition of the mistake. No suspension of cash payments would have been dreamed of by government, because the healthy state of the Banks would never have required it. We should have seen, at the present time, sound establishments in the metropolis, furnishing all needful assistance to the commercial community, acting as the receivers of unemployed capital, and the distributors of the property so entrusted to them amongst those who wanted it, and issuing for public convenience a paper currency subject to the check of instant convertibility into gold, enforced with unremitting constancy by the watchful competition of rivals. Instead of all this, we see one huge establishment with an exclusive privilege of issuing promissory notes in a district extending sixty-five miles round the metropolis; and using that privilege (according, at least, to almost all writers who have touched on the subject) in the most inconsistent and mischievous manner *; expanding the currency when it ought to be contracted, and contracting it when it ought to be expanded †; professing to act on rules which

* "Their conduct in 1824 and 1825, [i. e. the conduct of the directors] was directly opposite to every sound principle." —*Macculoch. Note on Money.*

† "Precisely at the time at which there ought to have been contraction, there was an extension of the Bank of England issues."—*Tooke on the Currency, page* 66.

are habitually infringed *; publishing unsatisfactory accounts from which no certain conclusions can be drawn †; mixing together in hurtful confusion the duties of a manager of the currency under a monopoly with the functions of an ordinary banker ‡; and, what is not to be wondered at, hesitating in the midst of these complicated movements as to the soundness of the principle on which the most important part of the business is conducted §. Without entering into an examination of the

* "Now, the charge which I bring against the directors of the Bank of England is, that instead of conforming to the sound principle by which they profess to be guided, they act in systematic violation of it."—*Col. Torrens's Letter to Lord Melbourne, page* 23.

† "But we are told in a pamphlet explanatory of the action of the Bank, and written by one of the most influential of the directors of that establishment, that upon the data furnished by the accounts as published, no safe conclusions can be founded."—*Reflections suggested by Mr. Horsley Palmer's Pamphlet, by Samuel Jones Loyd,* page 6.

‡ Ibid, page 10.

§ "If there exist any well-founded reasons for supposing that the principle acted upon by the Bank is not sound, or that the proportion of one third of bullion with reference to the liabilities of the Bank at the period of a full currency be not sufficient, it merely remains for Parliament to express an opinion upon either of those points, and there can be no question but that the Bank will immediately regulate its course accordjustness of these allegations, it may be presumed that when such charges can be made

ingly."—*The Causes and Consequences of the Pressure upon the Money Market, by J. Horsley Palmer, Esq.*

"If the principle be unsound, then let it be changed." —*Reply to Mr. Samuel Jones Loyd, by J. Horsley Palmer.*

Similar charges against the Bank, to those above quoted, may be found in the pages of Mushet, Drummond, and a host of other writers on the currency. Having alluded to some of the pamphlets of the day on the present subject, the author cannot refrain from acknowledging the gratification and instruction he has derived from the talent and intelligence which have been brought to bear upon it during the last six months. Besides the able tracts already quoted, those of Vindex, Sir Francis Knowles, Mr. S. Ricardo, Mr. Salomons, and Mr. Bennison, have all their respective merits. Mr. Joplin has analysed the report of the Parliamentary Committee with great acuteness and knowledge of the subject; and there is an anonymous pamphlet published by Ridgway, entitled "Thoughts upon the Principles of Banks, and the Wisdom of Legislative Interference," which goes deeper into the *philosophy* of the question than any of the rest. Mr. Gilbart's Treatise on American and English Banking, which the author has received while correcting the proofs of this Postscript, abounds in useful matter and judicious comments. Mr. H. S. Chapman, in his Tract on Partnerships *en Commandite,* has very clearly explained a species of Commercial Association foreign to our notions and practice, but well deserving attentive consideration. With writers like these in the field the subject cannot fail to be thoroughly examined and more generally understood—to the infinite benefit of the community at large.

with plausibility by experienced bankers and enlightened economists, they cannot be utterly without foundation. They prove, at all events, the difficulty of arriving at any satisfactory system of regulating the currency under a monopoly: and it may be doubted whether this difficulty, so long as the monopoly lasts, can ever be overcome; inasmuch as, whatever system is adopted, the necessity will exist of having recourse to arbitrary assumptions and empirical expedients. If the excellent suggestion, for example, thrown out by two very able writers, Col. Torrens and Mr. Lloyd, in regard to separating the two functions of the Bank of England, were adopted, and if, in the circulation department, the securities were maintained at one invariable amount, how is the right amount to be ascertained? On what principle is it to be determined? And if this could be done with exactness in any given state of affairs, on what principle could an amount of securities suitable for one condition of commerce, continue to be the proper amount when another widely different condition had supervened? It seems obvious that, unless one fixed amount of such investments were adapted alike to every state of commerce, it would not be sufficient on the part of the managers of the currency to suffer the public alone to regulate the circulation, by bringing in and drawing out gold, but that they would at intervals have to regulate it themselves by an alteration in the amount of securities, to an extent which must always be more or less a matter of conjecture. As far as I am able to judge, the elements necessary for the precise determination of such a point are within no man's reach.

It is an almost inevitable conclusion, that the longer the monopoly is persisted in, the more complicated will be the difficulties in which commercial affairs will be liable to fall. Every year seems to urge us to pass from a system of artificial restraints to the simple and easy movements of unfettered trade. The great desideratum is to have a currency convertible into gold, and capable of adapting itself by those insensible contractions and expansions which no human sagacity can ever effect, to the perpetually varying wants of the community.

Break up the monopoly, open the trade of Banking in all its departments to free competition, let it be unshackled by restrictions, and the object, as far as attainable by human regulations, would be at once accomplished. We should soon see a sufficient number of wealthy banking companies established, capable of doing all that the Bank of England now does, and deprived of the power of inflicting those evils which have been laid to her charge.

That they would be equally capable with her of receiving deposits, and discounting bills, or making advances on other securities, seems plain. Ten or twenty establishments, with capitals of two or three millions each, or less, would have it in their power to grant every accommodation to commerce that could possibly be required. That they would not, as banks of issue, have the same power of arbitrarily expanding and contracting the circulation of the whole empire, seems also manifest. They would, in this respect, be as passive as the Country Banks now are. Instead of their promissory notes being subject to no check but the irregular and desultory demand for gold by individuals, each Bank would be exposed to that organized system of checks which is necessarily constituted by the existence of other similar banks of issue, and the operation of which would be daily felt. This systematic action, so constant and instantaneous, would proportion with exact precision the amount of the paper currency to the state of commerce, or, at least, with a precision more exact than could result from the most vigilant attention of any board which attempted to accomplish the same object by watching the signs of the times. We might surely trust to the spontaneous operation of private interests for the supply of the metropolis with the requisite quantity of currency with as much confidence as we trust to it for the supply of the same vast community with food. The only valid objection to this arrangement appears to be that the Banks would need a common medium in which to settle their differences, less ponderous and inconvenient than gold, and that the country generally would want, in aid of their local notes, a paper currency, which, like that of the Bank of England at present, would be received every where without doubt or demur.*

This want (it appears to me) might be easily supplied, without the slightest infringement on the freedom of trade, or foregoing any of the benefits of competition, by the formation of a

* See this objection stated at length by Mr. Samuel Jones Loyd in his Evidence before the Committee on the Bank Charter, 1832, page 232 of the Minutes. No other objection of the least weight seems to have been urged by any of the witnesses, although most of them expressed opinions in favour of the present system of monopoly.

National Institution, specifically adapted to meet it. A National Bank might be established for the sole purpose of issuing notes on deposit of specie or bullion, and returning specie or bullion in exchange for its notes; so that no note should be in circulation which was not the representative of a quantity of gold actually existing in the coffers of the Bank. These notes should be made a legal tender, and, of course, every other Bank, both country and metropolitan, should have the option of paying its own paper either in the notes of the National Bank or in gold.

The advantages of such a currency—not to supplant, but in aid of the notes of all the other Banks—would be numerous and considerable.

These National Notes would obviously furnish the required medium in which Bankers might settle their differences, and form a universal currency throughout the British dominions, as Bank of England paper does at present.

They would have no tendency to swell the circulation, but would simply substitute a currency easily passed from party to party, at whatever distance and for any sum, in the place of one that is necessarily cumbrous and inconvenient, except in small payments, and amongst immediate neighbours.

There never could be a greater demand on the national Bank than it was prepared to answer. A panic, in regard to such an establishment, would be almost impossible. Should there, nevertheless, be a drain on its resources, its liabilities would all be discharged the moment its coffers were exhausted.

A limited amount of notes under five pounds might be issued for the purpose of facilitating small remittances—or even, if it were thought expedient, an unlimited amount,—without the slightest danger of driving a single sovereign out of the country.

An establishment so conducted could not, I am aware, defray its own expenses: as its only source of profit would be the accidental destruction of its notes. But the expenses would not by any means be formidable, and might be discharged by a very small additional duty on the issues of all other Banks for whose convenience this would be in a great measure instituted. From a return by the Bank of England, inserted in the Report of the Committee of 1832, the expenses attending the circulation of the Bank for the twelve months ending the 29th February of that year, amounted to £106,092, a mere trifle for securing the object in view. A much smaller sum than this would probably be adequate to the purpose.

Such an institution, as it could not at all interfere with the quantity and value of money, and would leave the freedom of issuing promissory notes untouched, would be altogether unlike the National Bank proposed by the late Mr. Ricardo, the establishment of which would be the next best course to a perfectly free trade.

It would approach nearer to the celebrated Bank of Amsterdam, of which the reader may see an account in Adam Smith's Wealth of Nations, but would be on a simpler construction, inasmuch as the whole of its operations would consist in receiving and paying gold in exchange for notes, thus dispensing altogether with personal accounts.

Without any confident assurance of the value of the suggestion, the author throws it out for the consideration of others, and especially of those who, like himself, have not acquired their experience in Banking without concurrent speculations upon the various phenomena presented to them, and upon the improvements of which this important department of commerce is still susceptible.